REPORT

OF THE

ROYAL COMMISSION

ON

[Life]

INSURANCE

MINUTES OF EVIDENCE

VOLUME II

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think any of the companies are doing that.

Q.—There is a loss on that item of $26,660.07. Then the net expected death losses in 1905 other than the policies issued that year were $39,649.71, and the actual death losses $15,810.04. That would show a profit in respect of death losses of $23,839.67. Is that a favorable showing? A.—I think it is decidedly favorable.

Q.—That is one of the matters that Standen commented on? A.—He said they were too high, but this is very much less.

Q.—Then there were no annuity claims. Your interest, dividends and rents received in 1905 $13,285.12? A.—Yes.

Q.—Taxes and repairs $2,581.21? A.—That is practically all taxes.

Q.—Nothing credited to special fund, and the amount required to make good the reserve was $12,635? A.—Yes.

Q.—Making $15,216.21? A.—Yes, that is this item and that.

Q.—Can you say what average rate your money earned for you that year? A.—4 per cent.

Q.—Is that as high as it should be? A.—No, it ought to be higher but our funds are all invested in high grade securities and the rate of interest is very low.

Q.—Does that account for the whole of it? A.— Well, our head office building was under repairs and there was no revenue coming in from that, and our new capital stock, the issue was made at the close of the year, there would be no interest earnings on that.

Q.—On the 31st December? A.—Well, along in November and December.

Q.—I think a good deal of the money paid in on capital account and on premium that you were referring to yesterday, was received at the end of the year? A.—It was all received at the end of the year.

Q.—All that was rceived that year was received at the end of the year? A.—Yes.

Q.—And that formed a good portion of your funds? A.—Yes, $125,000.

Q.—So that there would be no interest earned on that money? A.—No interest earned on that money and no interest earned on the investment in the head office building.

Q.—Did you have any profits on sales or maturity of securities? A.—We didn't sell any securities. No sales and no losses.

Q.—Did you write up the market values? A.—We took the market values as at the year previous, which were fixed by the Insurance Department.

Q.—You are referring now particularly to the home office building? A.—To everything.

Q.—Was there any other asset besides that head office building that was open to discussion at all? A.—Yes, there were some debentures. I have just forgotten the particulars. They were written up in 1904. The Superintendent of Insurance when he inspected the office in 1905 wrote them down again, $5,000. When we valued our securities at the end of 1905 we took them in at the same value placed on them by the Insurance Department. We purchased a good holding of Imperial Bank shares at a very favorable price, 230, and we write them up 5 points, to 235 and they were then selling at 240 to 245. They are now around 250 and 253 I think.

Q.—Do you still hold it? A.—Yes, a part of it. We sold 230 shares at 250, at a profit of 20 points and we still have 320 shares.

Q.—What does this item of $4,791.71 consist of? A.—That is new securities bought during the year. Imperial Bank shares particularly.

Q.—That you carry in as a gain? A.—Yes, it is very much below its present market price.

Q.—Then reserves released by surrender and lapse $37,706.29. That is a large item is it not? A.—Yes.

Q.—Too large? A.—I would rather see the business remain on the books, yes.

Q.—That means an item that goes to reduce the loss on the first year's business? A.—Yes.

Q.—It would represent a good deal of first year business that did not continue? A.—Yes, and old business too.

Q.—And you have surrender values allowed $16,000, making altogether surrenders and lapses $21,006.42 which you carry in as a profit? A.—Yes.

Q.—Then that would make your total profits $49,743.52; total losses $22,964, showing a net profit of $26,779? A.—That amount does not include the premium received on the shares. It is exclusive of that.

Q.—That is a pure profit and loss statement? A.—Yes.

Q.—I see that your commissions on premiums for the first year were $17.-925.26? A.—Yes.

29th day, May 25th, 1906.

National Life.
(A. J. Ralston, Ex'd.)

Q.—That you say is considerably smaller than it would have been had you not made the changes you have spoken of? A.—Decidedly lower.

Q.—I think that under your arrangement it was some advantage to you personally to get these expenses down, was it not? A.—In what way? Do you mean by my salary?

Q.—There is only one way that is really a substantial way? A.—I am ashamed to tell you how little I make out of that.

Q.—I do not see anything at all in it that is objectionable. I see it quite the contrary way. It was held out to you to get these first year expenses down and get on an economical basis? A.—Oh yes, that is part of the ambition.

Q.—It was made to some extent a direct benefit to you in the way of salary? A.—No, I am not receiving a dollar more salary.

Q.—That was proposed was it not? A.—No.

Q.—I thought there was a reference here to a bonus in cash? A.—Oh yes, I had forgotten all about that. I never got the bonus.

Q.—I am glad I mentioned it then, if it would have escaped your mind very long. You must not let that escape? A.—I haven't thought of myself yet that is coming later.

Q.—That seems unfortunate, but that was the idea, to make it a strenuous thing for you to accomplish that? A.—No, the real ambition was to make a company out of the National.

Q.—And that would be done by being economical in these early years and getting it on a profitable basis in that way? A.—Yes.

Q.—I see an item here of bonuses, prizes and awards to agents, $3,500? A.—Well, we made no bonuses, awards or prizes. I think that includes the travelling expenses account.

Q.—Advances to agents $7,305? A.—Yes.

Q.—Those would be the advances you spoke of? A.—On account of commissions earned but unpaid and fully secured by bond.

Q.—Do you think it is necessary to have an item such as that in your accounts? A.—The Insurance Department make us.

Q.—I am not saying it should not be there, if you advance the money, but do you think it is necessary that you should make advances in this way? A.—Yes, the agent has to live.

Q.—And you have to give him something to go ahead on? A.—Yes.

Q.—I notice that in the first statement of the National Life that the whole first premiums amounted to $16,833.61 and that the reserve required on those premiums was $15,582.96? A.—Yes.

Q.—And there was a death loss of $2,000. The reserve was almost equal to the whole premiums received in the first year? A.—Yes.

Q.—That constitutes a very large reserve to put up on that business? A.—Yes.

Q.—Is it necessary to show such a reserve as that where it is all new business? A.—I don't think so, but I am not an actuary.

Q.—Still, you are the best actuary the company has? A.—No, Mr. Sparling, the secretary, is more competent.

Q.—He is more nearly an actuary? A.—Yes.

Q.—A good deal of that reserve would be released in the next year by reason of surrender and lapses? A.—Well, there would not be any surrenders.

Q.—It would be all lapses in that year? A.—If it did lapse. Some of it would lapse, I suppose.

Q.—And a certain part of the reserve would therefore be released? A.—Yes.

Q.—Do you consider that the company now has reached such a stage that it does not require any more payments in on account of stock or premium? A.—Yes.

Q.—You think that it has got now so that it will develop surplus on the stock that it has and the cash that it has? A.—Yes, it is doing so now.

Q.—There will be no premiums paid on stock or no monies collected from shareholders during this year? A.—No, nor in any future year while I am there.

Q.—Why do you say that? Is it objestionable to have too large a capital stock? A.—No. I don't fancy the shareholders would want me there to run the company if I had to go back for more money.

By MR. HELLMUTH:

Q.—At the outset of a company, Mr. Ralston, the ratio of operating expenses to premium income is bound to be much higher than it will be at a subsequent date? A.—Yes.

Q.—And that was your experience in your company? A.—Yes.

Q.—In the year, for instance, 1901, your ratio taken from the Blue Book would appear to be a trifle over 66

29th day, May 25th, 1906.

National Life.
(A. J. Ralston, Ex'd.)

per cent.? A.—I have not looked into it.

Q.—But you would not be very much surprised at that? A.—No.

Q.—You have got down to something now less than 50 per cent.? A. —Yes, I think it is about 45 now.

Q.—It was 50 for 1904 I see? A.—Yes.

Q.—And of course you expect to bring that very much lower as your company gets—A.—Older.

Q.—Have you considered at all what would be a reasonable ratio of expense in a company established for 15 or 20 years? A.—About 30 to 32 or 33.

Q.—You would not expect it any lower than that? A.—I would like to see it lower, but I don't think it could be brought lower under present conditions.

Q.—That is under the condition, may I say of excessive competition? A.—That is part and the difficulty in getting good men to sell your policies and the other difficulty of having the proposed insurer decide the matter without a canvass.

Q.—You think the only way, as I understand your evidence, to get insurance business is to hunt actually for it? A.—Yes, sir.

Q.—And that the company that pursues the most vigorous hunt will have the largest business, other things being equal? A.—Yes.

Q.—And therefore you have to spend this money for it? A.—Yes.

Q.—People won't come and take life insurance? A.—No, sir.

Q.—And in order to capture business it is necessary to offer something almost more than life insurance to people? A.—I have not found it necessary.

Q.—I mean pure life insurance? A. —Oh, you mean the investment features?

Q.—Yes, you have got to offer them profits that they will get themselves? A.—Some people prefer that; others don't want it. We try to give them what they want.

Q.—But that is what the companies mainly request their agents to push, the endowment and the investment features? A.—Yes.

Q.—Recognizing the, shall I say, natural cupidity of people to receive something for themselves? A.—Yes.

Q.—Instead of merely providing for their families? A.—Yes.

Q.—It is to that instinct you have to appeal in order to secure business? A.—Yes.

Q.—And you yourself or your company recognizes that that class of business, that is the investment business, is not really pure insurance? A.—I have never made that statement.

Q.—But your company does in its literature? A.—I am not aware of it.

Q.—I was not either until I took up this one of your manuals? A.—That is an old one. That manual has not been used for several years.

Q.—So that this manual is when the company was young and innocent? A. I fancy so.

Q.—Do you see there on page 70 under Non-participating Class, "the non-participating class offers pure insurance at very little more than cost." That was the idea at all events of the author of that work, that non-participating ordinary life was pure insurance? A.—So it is.

Q.—And the endowment is sugaring the pill, isn't it? A.—No, it is a combination of two.

Q.—Of pure insurance and investment? A.—Exactly. But there is no doubt about it at all that the indemnity feaure, the mere protective feature has been superseded in all the companies practically in Canada as well as in the States with the investment, I won't say speculative, but the investment or return to the insured himself, not to his family? A.—That is right.

Q.—That is what has come about? A.—Yes.

Q.—And that class of insurance, the investment, requires necessarily very much larger premiums than the other? A.—Yes.

Q.—And as you increase the investment feature you decrease the purchasing power for the protective feature, that is if a man would put all the dollars that he is going to pay annually into protection he would have a much larger return? A.—A larger amount of insurance.

Q.—A larger amount of insurance for his family? A.—Yes.

Q.—What is your own view as to insurance companies being investment companies rather than pure insurance, I mean your personal view? A.—Well, we would not write as much business, the business would not be as attractive if we did not have these investment features. You take a young man and he would not want any insurance for years, until someone was depending upon him. I don't know what would become of the life insurance companies without it.

29th day, May 25th, 1906.

National Life.
(A. J. Ralston, Ex'd.)

Q.—You have got to have the investment feature, in your opinion? A.—Yes, and it is a good one.

Q.—Do you think that you toll or tax the investor in insurance for the benefit of the indemnity insurance man? A.—No.

Q.—You do not do that in your company? A.—No.

Q.—Then where you have an ordinary straight life policy without profits at age 40 I see your premium is $28.10? A.—Yes.

Q.—Now that premium is based on the net premium first which is an amount sufficient to provide for the reserve at 3½ per cent? A.—Exactly.

Q.—Since the Act of 1889? A.—Yes.

Q.—And is also based on the H. M. mortality tables? A.—Yes.

Q.—And you find a saving in mortality, do you not? A.—Yes.

Q.—Is it correct to say that the actual mortality is only about 75 per cent. of the tables? A.—I am not sure about that. The fact of the matter is I give those matters very little attention.

Q.—But you know there is a saving? A.—Yes.

Q.—And there is a saving in your company at all events, from what I understand from you, of the differences between three and a half and 4 per cent., your funds being invested at 4? A.—Yes.

Q.—So that you have one half per cent. saving in interest and you have whatever saving there may be in mortality? A.—Yes.

Q.—That premium then ought to be perfectly safe for the amount of insurance that it covers? A.—Yes.

Q.—But you find apparently from your statement which has been put in, of 1905, that your loading is hardly sufficient to cover the expenses that actually occur? A.—That is right.

Q.—So that you have to trespass upon these savings from mortality and by way of interest in order to make up the loading? A.—Yes.

Q.—And you do not pay or expect to pay and you have no contract to pay to this man anything more than $1,000 at death? A.—At death.

Q.—He will get no profits if they were made, so that he looks and only looks for $1,000 for his family at his death? A.—Yes.

Q.—And the premium is never reduced? A.—No, it remains stationary, If he outlives his expectation the $1,000 is there, the reserve.

Q.—The reserve has to be made up whether he outlives his expectation or not? A.—Certainly.

Q.—Then will you find me an endowment policy with profits and give me the premium for that? A.—For an endowment or for an ordinary life.

Q.—I will take an endowment, one of your highest priced investment policies, for the purpose of this illustration? A.—I could give you a 10 year endowment.

Q.—I would rather one that went on? A.—At 40, 20 year endowment, the rate is $51.89.

Q.—Have you 40 at 25 years? A.—The same policy?

Q.—Yes? A.—$46.75.

Q.—A 20 year endowment 46.75? A.—Age 25.

Q.—No, that is wrong, I want age 40 on a 25 year endowment? A.—$42.58.

Q.—And the premium on the straight life was $28.10? That is a difference of $14.48 in the annual premium? A.—Yes.

Q.—Now is that $14.48 additional premium for the purpose of profits? A.—No, in one case the endowment is a guarantee of the amount insured if they live at a certain time or payment at death, the other is just strictly a guarantee of so much payable in the event of death.

Q.—You have the profit system and the endowment system, but one payable at death? A.—Well, an endowment policy could not be. An endowment policy is one which matures during the lifetime; a life policy is one which matures after death.

Q.—Now you have a life policy with profits? A.—Yes.

Q.—Maturing only after death? A.—Yes.

Q.—Well, that is what I want, on the same basis only with profits? A.—At age 40, here you are.

Q.—The premium is $32.05. A difference of $3.95? A.—Extra premium.

Q.—Now that $3.95 cents is loaded simply for profits? A.—Yes.

Q.—It is not loaded for any other purpose than to enable the holder of that policy to get profits out of the policy? A.—I think so.

Q.—And if your general expenses in your company run over the loading on the ordinary life without profits, you have to go to this $3 in order to make it up, or impair your capital? A.—We have the interest earnings, the release of the reserves from lapsed business. We have got to take all these

29th day, May 25th, 1906.

National Life,
(A. J. Ralston, Ex'd.)

things together to find where we get our money to use.

Q.—But the gentleman who has got the without profit policy for life can never have anything taken away from him? A.—Nor can the other man.

Q.—Oh yes, he can have less profits declared upon his policy. If your expenses of management are over the amount you have put for loading, that has got to come out of some of the funds of the company and reduce the amount of profits? A.—We keep these plans in a class by themselves. There is a record kept on these cards. Take that plan you refer to, an ordinary life with profits; we are not taking that man's money to pay something else.

Q.—I do not say you are, but if there are no profits? A.—Well, he don't get them.

Q.—But he has paid so many dollars for profits, and the other man gets everything that he contracted for, or rather his family do, the thousand dollars at death, that is so, isn't it, and this man may get nothing more than $1,000 without profits? A.—That is true, and he may get a good deal more if the company is successful.

Q.—His $3.95 may earn him a great deal more? A.—Yes.

Q.—But he takes that risk? A.—He takes that risk.

Q.—And his $3.95 may be used up in making all the policies answer their strict contract? A.—It might.

Q.—The ordinary life man occupies the strongest position on his contract? A.—Yes.

Q.—Do you favor writing this plan? A.—I favor giving a man just what he wants.

Q.—Do you instruct your agents as to which plan they shall push? A.—We have instructed them to push the 5 year option plan for a special reason, but otherwise we have not anything to say beyond what is in the manual.

Q.—You prefer the deferred dividend plan, do you not? A.—Oh yes.

Q.—You prefer your agents to write, if they can—I won't use the word push—but to write, if they possibly can, policies upon the deferred dividend? A.—Yes, 20 years.

Q.—That means that all the profits on those policies will be in the hands of the company and not distributed for 20 years? A.—Yes.

Q.—A larger volume of money to invest and re-invest, in the hands of the company? A.—Yes.

Q.—And therefore you do not go with the Armstrong Commission as to yearly divisions of profits? A.—No.

Q.—You do not favor that? A.—No.

Q.—Do you favor the idea of a policy once having got upon a paying basis, that is having cleared the liability that originally attended to it being continued in force until it exhausts its reserve? A.—Yes, we do that.

Q.—I understand you did. You think that even without any request on the part of the person insured that should be done? A.—Exactly.

Q.—It becomes automatic? A.—Yes.

Q.—It works out until it is exhausted? A.—Yes, that is why he paid the money in.

Q.—You do not approve of forfeiting any of that man's money? A.—No, as long as it will carry the risk.

JUDGE MacTAVISH: Is that provided for in plain and unequivocal terms in your policy? A.—Yes, my lord, there is a sample policy on the file.

MR. TILLEY: I think, your Honor, that that is all we will have to ask the National Life at the present time. Mr. Sparling's name was mentioned in one or two matters, but he is not an actuary and we do not think it is worth while bothering about him. The examination is useful just as to the life of a young company, but that seems to be all we need to cover.

MR. KENT: There is one question I wish to ask the witness. He has stated that his practice was, if the policyholder was disgruntled to return him his money and allow him to step out. I would like to be sure that there is no string to that, no condition? A.—What I meant, Mr. Commissioner, was this, that if a policy was written by us in which it was shown that there was a reasonable doubt, we would prefer to return the money to the policyholder or place him as he was, but if it was a case where a man had been insured for several years and made no complaint we could not then.

MR. TILLEY: I understood the witness to rather imply that answering afterwards and say that if they came to the conclusion that there was a fair case made out of misleading the man or some impropriety, I think the witness practically got to that view? A.—Yes.

Q.—Some impropriety on the part of the agent.

29th day, May 25th, 1906.

MR. KENT: Then it is only in the case of misrepresentation by an agent that the man would be allowed to withdraw?

MR. TILLEY: I understood that that was the answer.

MR. KENT: That makes quite a difference. I thought it meant that if the agent had been too persuasive and got him to take insurance that he could not continue, that he would be allowed to retire.

JUDGE MACTAVISH: You do not make provision for a man changing his mind? A.—No, sir.

Q.—Going back to the company and saying, I am not pleased with this bargain and I want to get out of it? A.—No, sir, there is no provision for that, but if it is shown that the policy had been misrepresented.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

Union Life Insurance Company.

Resumed at 2 p.m., May 25th, 1906.

MR. TILLEY: With Your Honor's permission I will call Mr. Symons and probably clear up the Union Life matter.

JUDGE MACTAVISH: Yes.

MR. SYMONS, re-called, examined by

MR. TILLEY: Q.—Mr. Symons, in connection with the investigation into the matters relating to the Union Life Insurance Company and the National Agency Company, some evidence was given by Mr. Carrie regarding a loan transaction to you by one of the companies, as he described it, against which there were some shares in an electrical development company stock that he said were hypothecated to the company; would you explain what that transaction was? A.—Mr. Carrie was quite in error about that loan having been made; there was no loan. I prepared a letter and sent it in to Mr. Shepley in connection with that matter which I would like to be put in. That contains the facts as they were.

Q.—Was it an advance made by the company to you? A.—No.

Q.—Was it money paid to you? A.—No except I was the medium.

Q.—What position did you occupy with respect to the company that made you the medium to receive that money? A.—A quantity of shares

were allocated to me as one of the shareholders of the Development Company, which I had the right to acquire. I was not in the position to take all of them up, and I suggested to the Executive of the National Agency Company that would be a good investment for that company.

Q.—Tell me the name of the company first? A.—The Electrical Development and Securities Company, of New York.

Q.—Where are the operations of the company carried on, if it carries on any? A.—The head office of the company is in New York; there is a local office here, of which I am manager, or have charge rather, and it is licensed in Ontario under the name of The International Electrical Securities Company.

Q.—What business is the company incorporated to carry on? A.—The business of developing electric energy.

Q.—What stage is the company in with respect to that business? A.—Do you think that is a proper question?

Q.—Yes, if it is something the National Agency had anything to do with I think we ought to know? A.—I have no objection, it only seems to me it is going into the affairs of another company which is not directly affected.

Q.—I think to that extent it is pertinent? A.—They are engaged in the business of developing electric energy at Niagara Falls and the Niagara Peninsula. They have acquired certain franchises and rights, and they have gone into considerable surveying and engineering and constructing work and so on.

Q.—Is it a company recently organized? A.—It was a company organized in 1902.

Q.—Of which you are a stockholder? A.—Yes, and a director.

Q.—A large stockholder? A.—Yes, I am a considerable stockholder.

Q.—What percentage of the stock do you hold? A.—I hold I think about 7 or 10 per cent. of the stock.

Q.—And are Canadians interested in the company or are you? A.—Yes, some Canadians, principally Americans.

Q.—Then new stock was issued by the company, is that right? A.—Yes, there was a second issue of stock.

Q.—Which you were entitled to take up? A.—Yes.

Q.—You were entitled to take a certain part as being your share? A.—Yes, it was confined solely to the share-

29th day, May 25th, 1906.

Union Life,
(Mr. Symons, Ex'd.)

holders and a certain number were allotted to me or allocated to me.

Q.—We understand how the stock came to be issued; can you say then that the National Agency Company on your recommendation took the stock? A.—Yes.

Q.—And paid for it? A.—Yes.

Q.—How much was paid for it? A.—I think about $1,670.

Q.—Was the cheque made to you? A.—Yes.

Q.—The cheque was made by the National Agency Company to you? A.—Yes.

Q.—And then you cashed the cheque? A.—And made my cheque to the company.

Q.—You paid your own cheque to the company? A.—Yes.

Q.—In whose name was the stock made out? A.—It was made to me and I transferred to the National Agency.

Q.—Was that transfer ever recorded in the books of the Electrical Development Company? A.—No.

Q.—It still stands in the books of the Electrical Company in your name as the owner of that stock? A.—Yes, that is for voting purposes.

Q.—Then when the stock actually transferred from you to the National Agency Company? A.—At the time the deal went through; I have not the dates; if I am not mistaken it was about March or April of last year.

Q.—The advance of money by the National Agency Company appears as a loan to you, so Mr. Carrie said? A.—That was an error.

Q.—He said he spoke to you about it several times or on different occasions——

JUDGE MACTAVISH: And you told him there was stock in the vaults of the National Agency Company to represent it? A.—That is quite so.

MR. TILLEY: Q.—"And he still thought when he gave his evidence it was a loan to you? A.—As the bookkeeper he did not know, but the entry had been made in that way, because until the stock was actually delivered it would go through the books in that way.

Q.—Was there any resolution ever passed by the National Agency Company authorizing that stock to be bought? A.—I do not think so.

Q.—I looked for it but I could not see it? A.—Possibly not.

Q.—Would it be natural for a transaction to go through that way? A.—It might or might not, I dare say there were other transactions, they all appear through the cash book.

Q.—Other transactions of that kind? A.—Possibly.

Q.—What kind? A.—Purchase of stock.

Q.—That sort of stock, where you were personally interested yourself? A.—No, that was the only transaction in which I was personally interested.

Q.—I suppose there was the obligation on you to have that stock taken up? A.—Not at all.

Q.—You were not bound to take it up? A.—No. I may say this right away, it was considered a favor to these shareholders to take it up. It was all taken up, and any shares that could not be taken up by any of the shareholders it was well understood would be at once snapped up, so to speak, by the other shareholders.

Q.—Has the stock got any selling value now? A.—Only amongst the holders.

Q.—It is not an asset upon which the National Agency Company could realize except by selling to the directors? A.—They could realize any time they wanted to.

Q.—Could they realize in any other way except by selling to directors or persons interested in the company? A.—No, because we would take jolly good care to see nobody else got it.

Q.—Have you at any time received any moneys from the National Agency Company other than remuneration for your services? A.—No, I think not.

Q.—Did you receive anything from this electric company by way of dividends or profits? A.—No.

Q.—Were you paid any sums by the electrical company at all? A.—Only for personal services.

Q.—In what capacity were the services rendered? A.—I am the joint member of the Executive Committee, two members, I am one, and I am allowed a certain remuneration for that, for time.

Q.—Does that money find its way into the Agency Company at all? A.—No.

Q.—It is not an interest-bearing stock of course? A.—No. I may say I am allowed certain amount for office expenses in Toronto. That I turn into the National Agency.

Q.—How much are you allowed? A.—It amounts to probably $200 a year of something like that.

Q.—And is that paid over to the Agency Company? A.—Straight, it does not come through me at all.

29th day, May 25th, 1906.

Union Life,
(Mr. Symons, Ex'd.)

Q.—We were furnished with statements showing the remuneration received by you from the different companies, do you know whether this statement that has been supplied is correct? A.—I should say yes, it was prepared by Mr. Carrie at the request of the Commission.

Q.—And one account is headed "Bills receivable account," October 13th, 1902, a demand note for $1,850; do you know what that was for? A.—I think that refers to stock exclusively. That account is to show the position of my liability to the company in respect of promissory note given on stock accounts. There were no notes given by me to the company except on stock accounts.

Q.—As I understand it you would subscribe for stock and issue your promissory note for it? A.—For part of it.

Q.—Then you would also get other stockholders' stock transferred to you where they could not carry it all? A.—Exactly.

Q.—And the other stockholders would be relieved of that amount? A.—Yes.

Q.—And what he had paid would be treated as entirely paid up on the stock? A.—Exactly.

Q.—Would there be any money pass between you and the former stockholder in connection with that transaction? A.—No, there might be a small balance one way or the other that would have to be adjusted; it would be a very trifling amount.

Q.—That is you would take a certain number of shares from him which would be, over and above the amount of the money he had paid, applied on his first stock? A.—On the paid-up stock a certificate would be issued to him for the amount he had paid. There might be a little shortage on that, and I would have to issue a cheque.

Q.—The National Agency Company would have the issue of a cheque for that? A.—No, the National Agency Company issued none.

Q.—Would you say the National Agency Company never issued a cheque to its old shareholders? A.—I think I am right in saying they did not.

Q.—Did you issue yours? A.—I would issue mine, but most likely he would find the balance would come the other way. Q.—There were cases where money would be paid to the old stockholders by you or on your behalf? A.—I doubt it very much. I do not think there were any transactions in which I had to pay any; there may have been cases where the transferring stockholder had to pay up a trifling amount in order to enable him to get the fully paid certificate.

Q.—Would that money come to you or the National Agency? A.—The National Agency.

Q.—And be credited to you? A.—Not credited to me, credited on the account of the stockholder, to balance his account.

Q.—That is you would have a sale of that stock effected through some agent? A.—Yes.

Q.—And the agent would pay the money in, and you would take the money as being the shareholders', in respect of those shares? A.—Less commissions.

Q.—There would be profit on some of those transactions? A.—Yes.

Q.—Then the other transactions to that, cases where you had subscribed for stock and that stock sold through the agent? A.—Yes.

Q.—Then there would be profit on those transactions? A.—Yes, less commissions.

Q.—Tell me why you should get a profit on those sales of stock instead of having stock sold for the company? A.—A great deal of that stock was sold at 125 or possibly in that neighborhood. There was no Treasury stock issued except at 150. The company desired to get in all the amounts of money that had been subscribed by any shareholder, and in order to make that good and to make each one of these accounts good that system was adopted, and all the money to which the company was entitled went into the company.

Q.—Take the case where you would subscribe for stock, you would subscribe at par? A.—Yes.

Q.—And the company was selling its own stock at 150? A.—Yes.

Q.—And the same agent that was selling the company's stock would sell your stock, would not he? A.—Yes.

Q.—And he would sell your stock at 150 or the best price he could get? A.—Yes.

Q.—Tell me why you were taking that premium on the stock? A.—I will tell you this, that there was none of my stock sold by an agent at 150.

Q.—Or at any profit at all? A.—It would be a sale of stock at 125 or thereabouts, which money it was desirable to get in to make those subscriptions good, otherwise there would

29th day, May 25th, 1906.

Union Life,
(Mr. Symons, Ex'd.)

have been defaults and forfeitures and a lot of trouble would have occurred.

Q.—Here is an account; at the end of the account is shown a summary respecting these transactions where you had given your note for stock, and the stock was sold by the company's agent, and the profit was payable to you; there is an account showing you got profit on those transactions of $2,033? A.—Yes.

Q.—Why did not that money——? A.—I think I was entitled to it.

Q.—Do you think you were entitled to take the company's stock at par when it was selling in the market at 150? A.—We were under that resolution.

Q.—Under the resolution that you yourselves put there? A.—Exactly; there was no disguise about it; the whole thing is quite patent.

Q.—To any person who would come to the books and look? A.—The books are open to anybody.

Q.—You think that is a proper transaction? A.—Yes.

Q.—For a director of a company to pass a resolution that the directors, not the shareholders, the shareholders were not given that privilege? A.—Yes, they were.

Q.—The resolution provides that the directors, certain persons, three or four of the directors, should get theirs at par? A.—It does not say anything of the kind; the resolution speaks for itself; it shows an opportunity was to be given to those who had originally subscribed to come in on the same basis. You will find that some of those subscribers were shareholders and were not on the Board at all.

Q.—Yes, but I am referring now to a resolution which gives three or four of you directors that right? A.—Will you show me the resolution, I am afraid you cannot find it. I know of none.

Q.—What is this account, "Harry Symons re Century Life, $800"? A.—For legal services.

Q.—Covering travelling and other expenses and fees in connection with transfer of Century Life, absent from Toronto thereon one month? A.—Yes.

Q.—You were paid $800 for that? A.—Yes.

Q.—By what company? A.—By the National Agency.

Q.—Of which you were the President? A.—Yes.

Q.—And fee on renewal of Act in the Senate and House of Commons, including several trips to Ottawa on the subject, $700? A.—Yes, that was in getting the Century Life charter extended.

Q.—Was that a difficult matter? A.—Yes, very. I may say this, I had to defeat the Minister of Finance in Committee on that and succeeded.

Q.—You have another item, salary for management from August, 1904, to December, 1905, that would be about a year and a half? A.—Yes, that is at the rate of $50 a month already spoken of.

Q.—Besides those sums you received the amounts shown in this statement which is labelled "Officers' and Directors' Salaries, National Agency": 1901 you received $1,833.32; in 1902 $2,043.30; in 1903, $1,580; 1904, $1,935; 1905, $2,875—those would be the sums you received from the National Agency Company? A.—Yes.

Q.—Did you receive salary or remuneration from the Union Life as well? A.—Yes, the statement shows that.

Q.—In 1902 you received $190; in 1903 $435; in 1904, $470; in 1905, $530? A.—That is correct.

Q.—Do those items I have read now respecting the National Agency and the Union Life disclose all the remuneration or moneys you have received from either of those companies? A.—They do.

Q.—Including the moneys received from the Century Life? A.—Yes.

Q.—Or on account of your management of that company? A.—Yes.

Q.—And those payments along with the transactions you have spoken of regarding the Electrical Development stock, are those all the personal transactions you have had with the company? A.—Yes.

Q.—Or with respect to its stock? A.—Yes. Our instructions issued to our cashier were to see that those statements contained everything directly or indirectly affecting any of the directors.

Q.—I would like you to show me that resolution where that stock was allotted; what was the date of the allotment of that stock, the large block of stock? A.—I do not think there was any large block of stock.

Q.—Mr. Evans got some 120 shares—October 22nd 1902, on page 38, is this the resolution Reads)? The first two are yourself and Mr. Evans and the other one is Dr. Millichamp? A.—Yes.

Q.—Those are the three that got it at par and you were the three direc-

29th day, May 25th, 1906.

Union Life,
(Mr. Symons, Ex'd.)

tors? A.—Yes; there were other shareholders entitled—

Q.—Mr. Hughes is a shareholder, he did not get it at par? A.—No, he did not come in until after the original issue.

Q.—Where is the resolution that gives all shareholders that right at that time? A.—There it is 22nd August, 1905.

Q.—Here it is, resolution on page 31 of the Executive Committee book: "On motion duly seconded, resolved that the time for receiving applications for stock in the capital stock of this company from shareholders at the premium of 25 per cent. be extended until further"—so that shareholders in the National Agency Company were being given the stock at 25 per cent. premium, and you and Mr. Evans and Dr. Millichamp got it at par? A.—That is the way you put it, but that is not the fact; the fact is that the original subscribers of stock, including those two gentlemen who you have named, and other shareholders who are not on the Board, had the right for a limited time to subscribe upon the same terms as their original subscriptions. That included a few that had subscribed for stock originally before the company was organized or thereabouts. Subsequently stock was issued at 25 per cent., and the time for receiving subscriptions at 25 per cent. was extended, as you have just read.

Q.—Originally it was at par, now it is at 25 per cent., and the subscription of Mr. Evans and yourself was not until after it had been raised to 25 per cent? A.—Quite right.

Q.—But you were given this at par; can you say why you were given that privilege over other shareholders? A. —On page 16 of the general minute book of shareholders under date 22nd August, 1901.

Q.—That is the original allotment, we do not want to go back to that? A.—You asked me the resolution, and perhaps you will let me give this.

Q.—That was the original allotment? A.—That was the same time. "Moved by Mr. Pearcy, seconded by John Tucker, "Resolved that the new issue of stock when authorized by letters patent shall" (Reads resolution down to the words "determine" That is the resolution.

Q.—That is the resolution which gave— A.—Which perfected all the original shareholders.

Q.—And which gave an opportunity to the shareholders for a month from August, 1901, and now this is August, 1902, and the shareholders are given this here at 25 per cent. except yourself, Mr. Evans and Dr. Millichamp? A.—All the original shareholders who had subscribed at par had the right to acquire new stock at the same price under that resolution.

Q.—Dr. Hughes was an original subscriber? A.—No, he came in afterwards at 25.

Q.—That month had expired? A.—That time was extended by some resolution, they were held over. Subscriptions had been made but the allotments had not been made.

Q.—If the company was able to sell its stock at a premium over par why should it sell to the directors at par? A.—Simply because that was the only advantage the directors ever had for the organizing of the company; they received no remuneration.

Q.—Mr Evans was paid $4,000? A.—Yes, which was divided among three or more gentlemen.

Q.—Were you one of them? A.—Yes. It was not considered as sufficient remuneration by any means. Some advantage had to be given to these gentlemen who bore the heat and burden of the day. I had subscribed for I believe 100 shares, and Dr. Millichamp did the same, and I think Mr. Evans did the same, or something more, so that the only real profit that was made out of this company by myself, by Dr. Millichamp and by Mr. Evans would be about $2,000 each, to Dr. Millichamp and to me, and I think about $4,000 to Mr. Evans and that is all.

Q.—Were you and Dr. Millichamp and Mr. Evans the persons shared in the $4,000? A.—No, Dr. Millichamp did not.

Q.—So that the idea that was passing in your mind was that this $4,000 which was originally paid as profit was not adequate? A.—It was not paid as profit; it meant paying for some seven or eight or nine months of time, probably more, some out-of-pocket expenses and a lot of other things; and it was an amount which could have been increased to several times as much, and my personal feeling is I regret it was not done at that time rather than subscriptions should have been left open to enable the directors to obligate themselves and take stock at par;

29th day, May 25th, 1906.

Union Life,
(Mr. Symons, Ex'd.)

then we would not have had this question.

Q.—Has there been any case where money has been voted or authorized to be paid to you by either of these companies that has not yet been paid except the $500 that was authorized to be paid to each of you for your endorsation? A.—That was all.

Q.—And that has not yet been paid? A.—And I may say this that the bank declined to make the advance to the company without the directors' endorsations. The shareholders and every one else think that is perfectly reasonable, it should have been more.

Q.—We have here the salaries and so on paid to Mr. Evans as well; here is a statement of his stock transactions; transactions on capital stock account, showing a balance, a great many transactions extending through these years in his case? A.—I may say this with regard to Mr. Evans' account. He is not present, I expected him here. There are a good many transactions went through his account by way of relieving shareholders. He took over several of those accounts, very much more than I did. Mine I think was one, possibly two isolated transactions. Mr. Evans was Secretary of the company and was very much interested in assisting all the shareholders, and he took upon himself the disposing of those obligations, and they passed through his account. That I think is the real reason for so many items appearing there.

Q.—There are a great many; what profits did he make on his transactions? A.—He made $5,233.

Q.—He made a profit of $5,233 on the stock transactions; then from the National Agency Company he received in 1901, $2,945.42; in 1902, $4,185; in 1903, $874; in 1904, $256.64; in 1905, $170? A.—That seems to be right.

Q.—From the Union Life he received in 1902, $510; 1903, $5,158.-40—so that that year he received about $9,300 from the two companies; in 1904, he received $6,253.36; and in 1905, $5,560. Those moneys would be in addition to any profit he made. A.—Those were all on salary account.

Q.—And would be in addition to the profit he made on this stock? A.—Yes.

Q.—And besides the profit on stock there would be $500 that was voted to him for his endorsing the note, the same as yourself? A.—He has not yet been paid.

Q.—The other statements put in show the position of the others; the only one I refer to is that of Dr. Millichamp where the profit on his stock transactions was shown to be $2,846? A.—Yes.

Q.—And his National Agency payments were in 1901, $317.75; 1902, $1,210.86; 1903, $833.20; 1904, $371.-54; 1905, $170. Then on the Union Life account he received in 1902 $460; 1903, $1,586.75; 1904, $2,197.75; 1905, $3,160? A.—If you are reading those figures from the statement I have no doubt they are absolutely correst.

Q.—Those are the moneys received by yourself and Mr. Evans and Dr. Millichamp? A.—Yes. Are the other two accounts to go in?

Q.—Yes, but I will not bother reading them.

—Statements read from by Mr. Tilley re amounts paid officers and directors of Union Life and National Agency Company made part of Exhibit 129.

JUDGE MacTAVISH: Mr. Carrie said that this Electrical Development stock did not appear in any way in the books of the National Agency Company? A.—It should have appeared; I thought it had appeared until I looked and saw it did not. In my own account it appeared in that way; it said Electrical Development under my personal account.

Q.—It does not appear as an asset of the Agency Company? A.—I thought it did, I have never gone into our accounts.

Q.—That was the point of Mr. Carrie's evidence; apparently the transaction as it appears from the books was a loan to you, and no statement of the stock of the Electrical Development Company appeared in the books of the Agency Company? A.—Well, Mr. Carrie was quite justified in taking it in that way; he did not know anything to the contrary, and I was glad of an opportunity to make that clear.

CONFEDERATION LIFE ASSOCIATION.

MR. SHEPLEY: I propose to take up next the Confederation Life Association. Mr. Smith appears for the Company.

WILLIAM C. MACDONALD, sworn, examined by

29th day, May 25th, 1906.

MR. SHEPLEY: Q.—What is your position with the Confederation Life, Colonel Macdonald? A.—Secretary and Actuary.

Q.—How long have you been connected with the Cmpany? A.—Indirectly for about 25 or 26 years. I say indirectly because for five or six years from 1880 on I was only part of my time, about half my time with the company.

Q.—About 20 years ago you became exclusively attached to the company? A.—Yes, not quite that long, 19 years ago, in 1887.

Q.—Have you always occupied the position of Secretary since that time? A.—No, since that time the position of actuary; Secretary within the last year or more.

Q.—You had a predecessor in the office of secretary, had you? A.—No.

Q.—That was an office that was not known? A.—No, there was no secretary in the office prior to that, until recently.

Q.—Who has been the managing director since you have been there? A.—Mr. J. K. Macdonald.

Q.—He has been there continuously during all those years? A.—Yes, since I was connected with the company and prior to that time also.

Q.—He was one of the original incorporators? A.—He was the original promoter of the company.

Q.—And the company was in fact incorporated in 1871? A.—Yes.

Q.—You have furnished us with copies of the Acts relating to your company, and I understand you have been able to get us copies for the members of the Commission as well? A.—I think so, if not we can supply additional copies.

Q.—I will go briefly over some of the provisions of your Acts of Incorporation; the original Act of Incorporation was 34 Victoria, Chapter 54. That was an Act passed by the Parliament of Canada? A.—Yes.

Q.—Certain gentlemen named are the petitioners, and they with such persons as shall become members of the Association are made a body corporate for the purpose of carrying on the business of life insurance. Then I pass over for the time being the provision in the original Act with regard to real estate, because that we will have to take up a little later on. The capital stock is $500,000? A.—If you would excuse me this is the original Act as amended.

Q.—What was the original capital? A.—The original capital was $500,000.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

Q.—That is the way it appears in the Act as amended, divided into shares of $100 each, which said shares shall be and are hereby vested in persons who shall subscribe for the same with power to the Board of Directors to increase the amount of the capital at any time or from time to time to an amount not exceeding $1,000,000, and no person or shareholder shall hold at any one time either directly or indirectly or as trustee or otherwise more than 500 shares of the capital stock of the Association. Your original capital stock was $500,000 and it was all subscribed for before the Act was passed? A.—Yes.

Q.—And I think ten per cent. was paid in originally, $50,000? A.—Yes.

Q.—And I understand your Association has never taken advantage of the power to increase its capital stock to a million? A.—Yes sir. In 1880 I think the amending Act.

Q.—The amending Act enabled you to do so? A.—Yes. We took advantage of that.

Q.—You did increase your capital stock to a million dollars? A.—In 1881 probably the Act was amended.

Q.—Originally $50,000 was paid in, being ten per cent. upon $500.000? A.—Yes.

Q.—Then we come to the 7th clause; it makes members of the Association all persons who subscribe for stock or become shareholders and all persons actually holders of policies whether they are holders of shares or not who shall by the terms of the policy be entitled to participate in profits, and such holders of participating policies shall also be entitled to participate in the management and earning of the same as herein provided. So that from the beginning your Association has recognized the right of policyholders to a share in the management of the company? A.—Yes.

Q.—And you have always I think had policyholders upon your Board? A.—The Act requires us to have them.

Q.—But you always have as a matter of fact? A.—Yes.

Q.—Then the next paragraph vests the management of the Association in a body known as the General Board. That is to be composed of not less than 15 nor more than 20 members, 9 of whom are to reside in Toronto, and not less than one-half are to be shareholders, and not less than one-third are to be holders of participating policies. What number of members has

29th day, May 25th, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

your Board consisted of from time to time under that? A.—It has varied; I think for many years it was maintained at the 15, and some few years ago it was reduced to 13, I think the directors now are.

Q.—You had power to reduce as low as ten? A.—Yes.

Q.—You have never reduced below 13? A.—I think it is 13, but it may be 12.

Q.—How have you done about sharing office upon the Board between the shareholders and the policyholders? A. —There is no distinction made in that respect after the Board has been elected.

Q.—As to electing them? A.—In the election they are not elected separately, that is the shareholders, those representing the shareholders and those representing the policyholders are not elected by the respective members shareholders and policyholders, they are elected by the general vote of the members present, merely complying with the provisions of the Act, that the proper proportion of policyholders are elected on the Board.

Q.—Has there always been one-half shareholders? A.—Yes.

Q.—Has there always been one-third holders of policies? A.—Yes.

Q.—How have you dealt with the question as to where a shareholder was also a policyholder? A.—All the directors might both be shareholders and policyholders so long as one-third of the Board were policyholders and one-half were holders of shares, whether they were both shareholders or policyholders no distinction was made.

Q.—Have you from time to time had policyholders upon your Board who were not shareholders? A.—Yes, I think we have always had some.

Q.—Have you from time to time had policyholders upon your Board who were not shareholders? A.—Yes, I think we have always had some; I might say in that connection Mr. W. H. Beatty, our President, is a policyholder and never has been shareholder in the company; others also.

Q.—There are other instances where policyholders have been upon the Board who had no shareholding at all, but you have not applied the Act so as to exclude from the one-third people who were shareholders as well as policyholders? A.—No.

Q.—Then there is a provision here which I dare say you have always complied with, that 9 are to reside in the city of Toronto or vicinity? A. —Always complied with that.

Q.—Then the qualification of directors, as to shareholders there must be a shareholding to the extent of $5,000, that is 50 shares, that is section 11: "No person shall be eligible for election to the General Board—" A.—Capital subscribed.

Q.—"Or shall be the holder of a participating policy on his own life" (Reads the balance of section 11). Then the 12th section fixes the number of votes, a shareholder one vote for every share he holds and the participating policyholder one vote for each $1,000 in his policy? A.—Yes.

Q.—And then as to proxy, any proxy must be himself a member entitled to vote? A.—Yes sir.

Q.—Is there any veto upon proxies by policyholders? A.—Under the Act we do not construe the Act as permitting policyholders to vote by proxy.

Q.—Do you refer to any other section of the Act than the 12th? A.—No, I think that is the only section of the Act that bears upon that subject.

Q.—There is no direct prohibition upon proxies by policyholders, so you will observe? A.—No.

Q.—But that is the way it has been construed in your practice? A.—That is the advice of our legal advisers. We have never had to put it to the test.

Q.—Passing on I see you have power given you by the amendment which is incorporated in this pamphlet of the original Act at the bottom of the same page, 42 Victoria, chapter 2, section 1: "They shall also have power to charge the holders respectively of participating policies with losses to the extent to which they have been credited with profits during the current quinquennial period," etc. (Reads down to the words "expressed by the terms of their policies.") That you think you have added to your Act in 1879? A.—I think that was an amending clause. The original clause was mis-represented and was construed by some to give us the power to go back and charge against participating policyholders profits of a previous quinquennium which had been credited to them, which is not the intention, and this section was merely to make clear the meaning of the previous section.

Q.—So as to make it clear so that there was not power to go behind a quinquennium as to which profits had been declared? A.—Quite so.

Q.—But merely to permit you to adjust profits with losses during a cur-

29th day, May 25th, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

rent quinquennium? A.—I may say it has never been acted upon.

Q.—The next provision is also the provision which you get from the Act of 1879: "They may from time to time set apart such portion of the net profits as they shall deem safe and proper for distribution as dividends or bonuses," etc. (Reads down to the words "once in five years".) That clause seems to me to be a little clumsy, and I would like you to explain how that clause has been construed as to the 90 per cent. and as to the retention of one-fifth of what has been divided; supposing, for instance, you have ascertained that participating policyholders have earned $100,000, what would you do with that, how would you apply the statute to that? A.—Ten per cent. of that $100,000 on the participating branch would be or might be transferred to the credit of the shareholders' account. The balance, $90,000, would be credited to the participating policyholders' account and would be divisible as surplus at the end of the quinquennium.

Q.—The whole of it? A.—The construction to be put upon that one-fifth was that it would not be distributable during the currency of the quinquennium under the interim allotments.

Q.—I do not know that I quite grasp your meaning; there is a requirement in that section that you shall always retain one-fifth of whatever you divide an amount equal to one-fifth of what you divide; if you had $100,000 of profits which were to be dealt with under that section you have told me that ten per cent. of that would go to the account of a possible dividend for shareholders, while $90,000 would go to the account of a possible dividend for policyholders; what dividend would you actually declare to the policyholders and what to the shareholders? A.—The ten per cent. might or might not go to the shareholders, that would depend upon the Board, but it would not exceed ten per cent., and the balance would go to the policyholders. The interpretation which was placed upon that clause was that that was intended to apply to the interim dividend allotments referred to in the previous section. In recent years the amount that has been held back, unallotted surplus not declared and paid has been very much in excess of the one-fifth, so that it did not affect our distribution of surplus; we have always had a much larger sum in hand than one-fifth proportion.

Q.—What I understand you to mean by that is you would not consider $100,000 available without first having retained $20,000? A.—The construction as originally placed on it, that was not intended to apply at the end of the dividend period, it was intended to apply merely to the interim allotments, but during the last 20 years at any rate it has had no special significance as the amount held has been in excess of the one-fifth.

Q.—I want to call your attention to a possible construction of it, still keeping to the illustration I started with; if there were $10,000 out of this $100,000 available for a possible dividend—as you say that would have to abide the action of the directors—waiting a possible dividend to shareholders, might this not be construed as authorizing $8,333 to be distributed and $16,660 retained—do you grasp what I am driving at? A.—No, I do not follow the figures.

Q.—There is $10,000, you divide that by six, and you get that; that is one-fifth of this, and the two together would make $10,000? A.—One-fifth of the eight thirty-three; how do you arrive at the 833?

Q.—First I divide $10,000 by this to get that (Mr. Shepley is showing the witness a calculation he has had made) and then I multiply that by five to get this, and the two together make $10,000, one sum being five times the other? A.—Yes.

Q.—Do you see the possibility of so reading that clause—it may be of some importance to the earlier history of the company, though as you say it is probably all—— A.— I see the possibility of that construction.

Q.—Dealing with the $90,000 of possible dividend to policyholders, retaining $15,000 and dividing $75,000? A.—Yes.

Q.—That was not the construction which the Association was advised to place upon the section, and in the earlier years when it may have been of importance they construed that clause as not at all applying to the quinquennial period? A.—I think not; of course I cannot speak from personal knowledge and practice as to what has been done.

Q.—Still your acquaintance with the affairs of the company is sufficient to enable you to give us a generally accurate answer upon that? A.—Yes.

Q.—I pass to the 18th section, which now exists, it is a section which had

29th day, May 25th, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

been put in the Act by amendment: "Whenever any holder of any policy shall have paid two or more," etc. (Reads down to the words "premium thereon.") That seems to be a clause which is found in many of these Acts; it requires that the person insured shall make a demand within six months after the failure to pay the premium, otherwise he loses the benefit of the section altogether? A.—Quite so.

Q.—Is that a section which in practice has been enforced by your Association? A.—It was enforced up to 1893 when we adopted the extended insurance feature, the non-forfeiting policy. Policies issued since that time are automatically non-forfeitable, and with regard to the older policies we some time ago adopted the principle to give them the automatic paid-up insurance.

Q.—When you say some time ago, when do you mean? A.—It was in 1902.

Q.—You extended the non-forfeiting privilege to holders of policies issued before the time you issued that form? A—Yes.

Q.—And since 1902 has your custom in that respect been uniform? A. —That has not been carried out altogether; provision has been made to carry it out, dating back to the time 1893 when the other policies were issued.

Q.—I do not know that I understand that? A.—We are granting.

Q.—In respect of policies issued since 1893 they are by virtue of contract? A.—Yes, but our intention is to grant automatically paid-up insurance to all the previous policies where they have lapsed since 1893. We are making provision to grant automatically paid up policies and write up liability against that; it has not yet been done, except in the cases where they have formally applied for it.

Q.—That is something which is being done now in respect of business which is twelve years old? A.—Yes.

Q.—How long ago did your company arrive at that conclusion? A. —In 1902.

Q.—And since 1902 I suppose you have not got all the work done in working that out? A.—Well, during 1902 I was away from the office the greater part of the year, and the other matters were pressing and we have not gone back on the records until comparatively recently, to write up the liabilities on these paid-up policies, though we have provision made to meet that liability.

Q.—And you are still in progress of ameliorating the condition of these policy-holders in the way you state? A.—Yes, all the policy-holders that apply, that is in cases where they have lapsed since 1893, since the date of the adoption of the non-forfeiture clause.

Q.—To all who apply? A.—Yes, but we are going to of course write up a liability on all the others as well.

Q.—You are contemplating notifying these various policyholders? A. —Well, many of them we could not notify, we would be unable to reach them, but what action we may take to that end it is not decided, it is still in the future.

Q.—At present if a policy-holder insured before 1893 and he lapsed between that date and 1902, and he comes to you you will see what the application of the automatic clause will do for him? A.—If the policy was free from any debt at the date of the lapse.

Q.—Won't there be in that connection very few cases which could be cured or set in a satisfactory condition now? A.—I do not know, there would be a fair number.

Q.—You have an investment clause, section 21 of your Act. The only clause in that that I want to ask you about is the last paragraph "Provided always that any such investment made in the United Kingdom or in the United States, or any of the said," etc. (Reads down to the words "business therein.") That is not like the clause in the general insurance act? A.—No.

Q.—Upon which power does your company act in respect of foreign investments, your own statutory power or the power given by the general act? A.—On the broader power, which ever it may be.

Q.—Have you had occasion in your investments to consider which is the broader power, and to invest to a greater extent than will be found in one of these Acts? A.—I think the general act, The Insurance Act in regard to foreign investments is broader than our own; I do not think our own act is broader in any respect than The Insurance Act.

Q.—And you have had, as we shall have to inquire into, a little later on, instances of foreign investments? A.—Yes.

Q.—Section 27 of the Act provides, that, "No director or officer of the

29th day, May 25th, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

association shall become a borrower of any of its funds," etc. (Reads to the word "said association.") We all see the force and the purport of that; what do you say about that in practice? A.—I think it has been observed except in connection with borrowing on policies.

Q.—That no director or officer of the association has borrowed the funds of the association? A.—Well, they have borrowed on their policies in one or two instances.

Q.—Not in any other cases you have in your mind at present? A.—Temporary advances have sometimes been made to officers against salaries for a time.

Q.—That may be probably a technical breach of the section, but we won't deal with that just now; in your amending Acts I pass by the sections which I have already touched upon, and I come to a section which was added by the Act passed in 1890, that is, with respect to your holding of real estate;" "Provided always that nothing herein contained shall authorise the Association to hold," etc. (Reads down to words "annual value of forty thousand dollars.") Has that section been kept in view by the transactions of your association? A.—Yes, sir.

Q.—The annual value of all the property that you hold in the Province of Ontario otherwise than as mortgage security, has never exceeded forty thousand dollars? A.—That is other than real estate acquired under foreclosure.

Q.—I am excluding that, property the interest in which you acquired by way of security for loan on real estate? A.—Yes.

Q.—And I am intending for the moment at all events to include among mortgage securities all properties which you hold by way of security for the mortgage? A.—You are including that in our holdings?

Q.—No, I am including that in what you hold apart from this? A.—Quite so.

Q.—And you adopt what I say, and say that has not been exceeded if the mortgage power extends to holding foreclosed lands? A.—That has not been exceeded—the holding of real estate acquired by purchase has not exceeded the annual holding equal in value of forty thousand dollars.

Q.—And similarly with regard to other provinces, $20,000? A.—Yes.

Q.—Your stockholding clause prevents any persons or shareholders holding at any time either directly or indirectly, or as trustee, or otherwise more than 500 shares of the capital stock of the association; has that been respected in the dealing of your association or its shareholders with its capital stock? A.—I think so, with the exception of those who had holdings in excess of that at the time the Act was passed, which was not interfered with by the Act; at the time that amending clause passed there was no limitation.

Q.—That was passed in 53 Victoria, which would be 1890? A.—Yes.

Q.—Have you in your recollection any cases in which at the time of the passing of the Act the holding of any shareholder exceeded 500 shares? A.—I think the late Mr. Edward Hooper had more than the regulation number of shares, but I do not know of any others; there may have been others. I think perhaps Mrs. Cherriman was and is yet the holder of more than 500 shares.

Q.—I see Edward Hooper on the 31st December, 1890, seems to have had a balance of shares standing in his name of 878—the Act was assented to on the 24th April, 1890? A.—Yes.

Q.—There does not seem to have been any transfer in the meantime. We can run through these schedules. Mr. Hooper had a balance of 878 shares on 31st December, 1890; he made certain transfers during that year, which apparently took all his stock away, got all his stock disposed of during that year? A.—Not during that year, those are different years.

Q.—Yes, that is quite true. At 15th June, 1900, his holding had all gone, and that did not pass into any one hand but passed into different hands with the exception of the 500 shares? A.—Apparently so.

Q.—The holding was reduced by 1900 so that it was within the Act? A.—Yes.

Q.—What does an expression which is quite frequent through this schedule "in trust" mean; has it varied meanings or does it indicate one particular kind of holding? A.—Just the one particular kind of holding, that it is held in trust for some particular purpose; it was not an absolute transfer of the stock from the holder to some other person as owner; but as to that other person in trust for some purpose for security probably, or otherwise, I could not say in all the cases.

Q.—This is a large transfer to you yourself in trust, 480 shares? A.—No, 20 shares.

29th day, May 25th, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

Q.—Yes, that is the balance; can you remember about that? A.—I have not the remotest idea.

Q.—Then we will pass on. The first figure in each of these sections of the page will tell the balance at the particular date? A.—Yes.

Q.—Here is J. R. Kirk in trust? A.—Mr. Kirk was the Manager of the London and Canadian, and I suppose the shares were transferred to him in trust as security for advances made on them.

Q.—I do not know that that would be within the Act; that is a matter for consideration, but I see in his trust holding he raised from 440 to 540 in 1895, which of course was five years after the Act? A.—Yes, apparently.

Q.—That is immediately reduced the following day, it is reduced to 500; have you any recollection of the transaction? A.—None whatever.

Q.—It would look as though you were calling his attention to the fact that he was holding too much? A.—It may have been done.

Q.—You do not recall? A.—No, I have no idea.

Q.—Is there any record of the company from which we can ascertain this? A.—None whatever I think.

Q.—I see Mrs. Grifton at one time held up to the limit, 500? A.—Yes.

Q.—Here is a case W. H. Smith, Manager, in Trust—is it the Manager of the Ontario Bank? A.—Yes.

Q.—I see he held in 1891 in trust 695 shares, reduced below the 500 shares in April? A.—Yes.

Q.—Between February and April he was holding in excess of the amount named in the statute. I see also J. K. Macdonald in 1897 held from February to March in excess of the 500 shares in trust; you would not know what that is perhaps,—I suppose it would be different trusts in connection with the different transfer? A.—Quite so.

Q.—Speaking generally what would that be in the case of J. K. Macdonald, how would he come to be holding shares in trust? A.—There were some advances made on some of the stocks in which he held them in trust, in the case of Mr. Grifton, who was our agent at that time, and he got a temporary loan from us and transferred his stock I think as security. On another occasion he got a loan against his commissions.

Q.—I have gone through your loans and there are not spread out in the statement you have given to us nearly enough loans upon shares to account for this loan? A.—Take Hugh J. Macdonald, Mr. Macdonald wished to sell his stock, and it was transferred to Mr. J. K. Macdonald pending its disposal. I think perhaps Mr. J. K. Macdonald purchased some of it himself, and the remaining shares went into other hands, and in the meantime it was held by Mr. J. K. Macdonald in trust; and I think in other instances probably in this list there are cases of this kind. Stockholders out of town have transferred even to myself in that way.

Q.—For convenience of transferring when a sale had been made? A.—Quite so.

Q.—Here is J. K. Macdonald again I see in October last, he ran up to 579 shares? A.—Only for a day or two I think.

Q.—From October 3 to November 10th? A.—That was just simply temporary, some of those shares were transferred to me and I was out of town, and in the meantime they stood in his name.

Q.—I do not find Mrs. Cherriman? A.—Mrs. Cherriman is a stockholder. Here it is.

Q.—620? A.—Yes.

Q.—She has never apparently disposed of any of her stock? A.—No, her holding has remained unchanged for many years.

Q.—On the 31st December, 1890, she was the holder of 620 shares, and she holds them still? A.—Yes.

Q.—Do you think we have found in our brief running over this all the cases in which the holding has gone above the $500? A.—They are all there.

Q.—You did not observe that I passed over any? A.—No. I did not follow it closely, but I do not think it is possible that there are any others. I knew Mr. Smith of the Ontario Bank and Mr. Kirk of the London and Canadian had considerable holdings, but I was not aware they had exceeded the limit.

Q.—We will get at the end of 1890 the Government return shows Mrs. Cherriman, 620 shares, and it shows Mr. Hooper 878 shares, and that seems to be all? A.—That would be the same balance as is here; it would agree with this statement.

Q.—I pass from that subject to another; you have had certain executive or administrative committees besides the general Board of Directors, what are they? A.—The Finance, Agency and the Insurance Committees.

29th day, May 25th, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

Q.—They have always continued, have they? A.—I think since the organization of the company.

Q.—And they are still in existence? A.—Yes.

Q.—You have given us a copy of your by-laws, which will define the functions of your various boards. We will just put it on the record. The regular meetings of the Board are to be held on the second Wednesday of each month. Then there is a provision for extra meetings, as they are called; that is the regular state of things with your Board ever since, meeting monthly? A.—Yes.

Q.—Then there are to be three standing committees of the Board of Directors, namely, Finance Committee, which shall consist of five members, the Insurance Committee, and the Agency Committee, which shall each consist of three members, and shall be appointed by the Board of Directors and hold their respective offices during its pleasure, and shall make their reports to the Board, but unless specially authorized, no action of any Committee shall be final until approved by the General Board? A.—That is the practice of the company.

Q.—The provisions in the by-law in respect to the duties of the officers define first the duties of the President. He is to preside at all meetings of the directors; he is to be ex-officio a member of all standing committees, and shall also attend the meeting of any special committee when requested by its chairman, shall sign all policies for insurance and release of securities, and shall, at the request of the Board, exercise general oversight over the business of the Association. In his absence one of the Vice-Presidents shall perform all the duties of the President, and in the absence of the President and Vice-President, such duties shall be discharged by a Chairman elected by the Board. "Then" the Managing Director shall, under the direction of the General Board, be charged with the supervision and control of the general business of the Association. He shall have the custody and care of the books, papers, funds, securities, and other property of the Association, subject to the control and direction of the General Board. He shall discharge all such duties as the nature of the office of Manager and Secretary shall require, or the General Board may direct."

"The Actuary shall advise the Board and the Managing Director on all such matters as may be submitted to him, and shall prepare all tables required for the use of the Association in the transaction of its business. He shall prepare a valuation of all the outstanding obligations of the Association under its policies of insurance, its annuity bonds, or otherwise, made up to the last day of December in each year, and submit the same to the Directors when required."

—Copy of By-law of the Association, filed as Exhibit 163.

Q.—In the answers you have given me to these questions you have given me in terse form the duties of these various committees: the Finance Committee is charged with responsibility of all investments; the Insurance Committee deals with all applications for insurance, payment of death claims, etc.; the Agency Committee deals with the appointment of agents and medical examiners, and the salaries of the employees of head office and branch offices? A.—Quite so.

Q.—And all the actions of any of these Committees are subject to final approval by the General Board? A.—Yes.

Q.—Then in connection with investments we would expect to find all the records of those investments in the minutes of the Finance Committee and the minutes of the General Board? A. I think you will find them all there. perhaps except stock loans. They will not be reported on in detail probably; they were reported in bulk in the monthly statement to the Board.

Q.—Speaking of stock loans, has it been considered in your company there was any power to loan upon the stock of the Association? A.—Yes. it has been considered.

Q.—Has it been considered there was power to do it? A.—I don't think it has.

Q.—Then where loans have been made upon stock to stockholders that has been a matter which was understood to be transcending the general powers of the Association? A.—I suppose it must have been.

Q.—Apart from these loans we ought to find, I think we do find so far as your investments are concerned, that we get a full record of them in the minutes of the Business Committee and of the Board? A.—I think that they are all recorded there. There may be omissions in purchasing securities like bonds, municipal debentures, which we are in the habit of purchasing from day to day or week to week; it is

29th day, May 25th, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

possible there might be some omissions with regard to a security purchase where it was merely a matter of price. There is no doubt as to the security itself.

Q.—Then there is an answer here to question 6 which I do not understand the purport of; the question is "Furnish copies of by-laws and resolutions of the company"; you have already furnished us copies of all the minutes and Committees, but you say "Any resolutions or by-laws other than those in the minutes will be produced if desired;" are there any which are not in the minutes? A.—That is a little incorrectly worded. What I meant was any resolutions or by-laws referred to in the minutes which have not been copied. There are a number of resolutions, rather lengthy resolutions sometimes, some formal ones that we did not think it was necessary to spread out at length. The verbiage of that clause should be amended.

Q.—Wherever we find a reference to by-law or resolution which has not been copied in the minutes that can be procured if the subject seems to require? A.—Yes.

Q.—Sir William Howland was the President in 1891; had he been the President from the inception of the company? A.—No, the first President was Sir Francis Hincks. I do not know how long Sir Francis remained President, for a year or two.

Q.—Did Sir William Howland succeed him? A.—He succeeded him.

Q.—He remained President from the time we commenced our enquiry in 1891 down to 1901? A.—Some time in 1901 or the beginning of 1902, I am not quite sure.

Q.—I see Mr. Beatty, according to this list, becomes the President in 1902? A.—Yes.

Q.—And has Mr. Beatty been the President ever since? A.—Yes.

Q.—Your Vice-Presidents in 1901 were Mr. Elliott and Mr. Hooper? A.—Yes.

Q.—And they remained Vice-Presidents down to 1894 when Mr. Elliott was succeeded by Mr. Beatty? A.—Mr. Elliott died in 1893.

Q.—Then in 1900 Mr. Hooper was succeeded by Mr. Matthews? A.—Yes.

Q.—Then Mr. Beatty and Mr. Matthews remained Vice-Presidents till Mr. Beatty became President in 1902? A.—Yes.

Q.—And then Mr. Wyld succeeded Mr. Beatty? A.—Yes.

Q.—And so far as the Vice-Presidents are concerned they have remained the same ever since? A.—Yes.

Q.—I see the Finance Committees from year to year have consisted of a President, a Managing Director, and speaking generally four members? A. Yes sir.

Q.—Then I ask you next, Mr. Macdonald, with reference to the salaries. You may get for yourself Schedule I? A.—It is not here.

Q.—I am going to put upon the record, Colonel Macdonald, the salaries paid to the chief officers of the Association and the directors' fees. You have given us a statement of this year by year more in detail,, and then it is summed up in this. This will do for our purpose for the present. In 1891 Mr. J. K. Macdonald received a salary of $12,000? A.—Yes.

Q.—And that was continued till 1900, for ten years, without any increase, except that in 1900 he was paid a bonus of $2,000? A.—Yes, that applied to the previous year.

Q.—You mean it was a bonus of $1,000 for —— A.—I mean the bonus voted in 1900 really applied to the previous year.

Q.—To the year 1899? A.—Yes, and that, in all cases, with these bonuses, is the fact.

Q.—The year here under which the bonus is ranged is the year it was paid? A.—Yes.

Q.—But not the year it was supposed to have been paid? A.—No.

Q.—The salary was increased in 1901 to $13,000, and that year a bonus of $1,000 was paid? A.—Yes.

Q.—It was retained at $13,000 in 1902? A.—Yes.

Q.—Raised to $14,000 in 1903? A.—Yes.

Q.—And it has remained at that till the end of 1905, except that in that year a bonus of $1,000 appears? A.—Yes.

Q.—Has there been any change in the salaries since? A.—No change, not in that salary.

Q.—What is the date of your annual meeting this year? A.—In February.

Q.—Was there any bonus declared this year? A.—The salaries and bonuses are not voted at the annual meeting: they are voted by the Board of Directors.

Q.—At the end of the year? A.—Generally in January.

29th day, May 25th, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

Q.—There was no bonus voted this year? A.—Yes.

Q.—And the salary remains at $14,000? A.—Yes.

Q.—Then you commenced in 1891 with a salary of $2,500? A.—Yes.

Q.—And that was raised in 1902 to $3,000? A.—Yes.

Q.—And then for six years, down to 1898 inclusive, you got $3,600? A.—Yes.

Q.—For two years, 1899 and 1900, you were paid $4,200? A.—Yes.

Q.—And in the latter year you were paid a bonus of $500? A.—Yes.

Q.—That is the same year in which J. K. Macdonald was paid a bonus of $2,000? A.—Yes.

Q.—Then your salary was raised in 1901 to $4,500? A.—Yes.

Q.—In 1902 to $5,000: in 1904 to $5,500, and there was a bonus that year of $500? A.—Yes.

Q.—It remained $5,500 in 1904, and in 1905 was raised to $6,000, and a bonus of $500 was paid besides? A.—Yes.

Q.—Has there been any change this year in your salary? A.—No change.

Q.—Has there been any bonus? A.—No bonus.

Q.—Now, with regard to the directors' fees, upon what basis are directors' fees paid? A.—Well, I cannot—

Q.—Is it so much a meeting, or how? A.—There is a certain sum appropriated, a fixed sum appropriated for directors' fees, and that is divided amongst the directors according to the number of meetings held and which they attend. An appropriation is also being made specially for the members of the different committees.

Q.—The total sum in each year is shown as the total of these payments, I suppose, or how is that? A.—No, not necessarily. The sum is a fixed sum, and only changed at intervals of several years, and the amount actually paid may be in some instances less than the amount shown there: perhaps in other years it may be in excess of it, any balance of the previous year being carried forward.

Q.—What is the fixed sum that has been allowed for this item, for this distribution among directors? A.—I think it is not $7,000, if my memory serves me right.

Q.—What was it in 1891? A.—Probably $4,000, but could not tell, I would not like to state.

Q.—Then in 1891 Sir William Howland received $1,144? A.—Yes.

Q.—Was that all as directors' fees, or was part of that as salary? A.—I think perhaps that may have included an allowance for salary and in addition directors' fees.

Q.—Mr. Hooper, Vice President, $1,077.50, the next in amount: would that include an allowance as Vice President? A.—Included an allowance as Vice President, included his directors' fees and his fees for services as chairman of the Insurance Committee.

Q.—Could you tell from memory how much, apart from Directors' fees, these other allowances were? A.—No, I could not. Those sums have always been worked out by the Managing Director, and I am not very familiar with it. I can get the exact information if you wish it, of any particular item.

Q.—Not taking too much time with this at present, in 1902 the total amount under this head, which had been $4,044 in 1891, became $4,028 in 1893, $4,020 in 1894, $3,924—this is going in the right direction so far—in 1895, 3,338.85, in 1896 $3,936, in 1897 $3,834.50, in 1898 $4,019.50. Now it is commencing to go up again? A.—It did not go very far.

Q.—In 1899, $4,945.35. In 1900, $4,760.17. Did Mr. Maclean Howard occupy a position of chairmanship? A.—He is a member of the Insurance Committee, which is the heaviest committee we have in point of duties.

Q.—He seems to receive a very considerable allowance by way of directors' fees? A.—You will find all the members of the Insurance Committee receive heavier fees than the others.

Q.—Who are the members of the Insurance Committee for 1900? A.—Mr. Beatty, Mr. Howard, and the Managing Director.

Q.—Then in 1901 it goes up to $6,276? A.—Apparently.

Q.—Did Mr. Howard cease to be a member of the Committee that year? A.—No. I think the amounts may have been over from the previous year.

Q.—Then in 1902, $5,646.12. Sir William Howland seems to have received less that year, considerably less, only $850, and Mr. Beatty's allowance goes to $1,904.50, and Mr. Howard's is restored to $1,251.62; in 1903 Mr. Beatty got $2,935.87. That is not very long ago. Could you remember what that was made up of besides directors' fees what salaries or allowances? A.—Chairman of the Finance Committee and chairman of the Insurance Committee.

29th day, May 25th, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

Q.—How much would be the allowance? A.—I could not tell you. The accountant might tell you. I can get the details of those for you if you wish.

Q.—The total amount that year was $6,395.37? A.—Yes.

Q.—Then in 1904, $6,015.49; in 1905 $6,443.05. Mr. Beatty that year received $2,916.20, and Maclean Howard $1,676.85. Now, is there in this exhibit a statement of the head officers? A.—I think so.

Q.—In this particular exhibit? A.—I think so.

Q.—These look like the Superintendent, branch manager, and travelling agents? A.—I think all the expenses are there—no, it is not in that particular exhibit.

Q.—Now, I touch upon a subject which is quite different. I understand Mr. J. K. Macdonald can be here on Monday, and there are some matters I want to take up with him in the first instance, and therefore I take the liberty of dragging you hastily into another subject altogether. You have furnished us with copies of the various policies which your Association issues, anl among them I find here what is called the Twenty Year Gold Bond policy, and what you say about it is this: "This form of policy differs from the ordinary life or endowment policy only in so far as payment of the proceeds of the policy is concerned. Upon the policy becoming a claim by death of the insured or at maturity, if it is on the endowment plan the Association agrees to issue to the owner thereof a Gold Bond of the denomination of $1,000 for each $1,000 of insurance, such bond bears interest at the rate of five per cent., payable semi-annually in advance, the bond being payable at the end of the term of twenty years: the premium rates and other values for this form of policy are ordinarily 25 per cent. more than ordinary endowment, and it is in proportion an insurance for an increased payment. Comparatively few policies are issued upon this plan." In the first place you add to your premium 25 per cent. of what you would charge for a 20-year endowment? A.—Or for any class of policy.

Q.—The Gold bond policy being issuable according to any of the other plans? A.—Yes, I think we issue it on all the plans. We issue very few of them.

Q.—Take this case; this is a policy for $1,000 and it is 20 payment life. What would that premium paid for 20 years insure on the 20 payment life plan, part from any question of Gold Bond policy? A.—$1,250.

Q.—In other words, if he paid you that premium, he would be entitled to $1,250, or the beneficiary under the policy would at his death? A.—Yes, Mr. Shepley.

Q.—Then at that date you give him a right to receive five per cent., not on $1,250, but on $1,000? A.—On the face value of the policy.

Q.—For the term of years covered by the bond? A.—Yes.

Q.—I would ask you whether you think that is a fair description, to call it a five per cent. gold bond policy? A.—I think it is quite fair.

Q.—Don't you think it is liable to mislead? A.—I do not think so.

Q.—You do not think that the insured would be apt to think that he was to get the amount of his insurance invested with you at five per cent., or the amount which his premiums would buy, invested with you at five per cent. from the falling in of the policy? A.—I do not know what the insured might think, but he could not reasonably think that. We do not profess to give him five per cent. upon the premiums paid. The premiums paid on the twenty payment life for $1,250, on which the same premiums would be paid, would not amount, at the end of twenty years, to that $1,250; the premiums paid improved at interest.

Q.—The premiums paid would, at the man's death, entitle him, if he insured on that plan, to $1,250 in cash? A.—Quite so.

Q.—Instead of giving him $1,250 cash by a Gold Bond policy you give him $1,000 at the end of 20 years, with five per cent. interest on $1,000 —— A.—We do not promise to pay him $1,250 in cash.

Q.—But what he could have got by the other plan would have been $1,250 in cash? A.—If he chose to take the other plan.

Q.—What he gets by this plan, which is called the Gold Bond policy, is not $1,250, but a right to have $1,000 in 20 years, with interest on that sum in the meantime at five per cent.? A.—Quite so; I think that is the plain terms of the contract.

Q.—Why gold? Why do you say gold bond? A.—Well, at the time that those policies came into vogue there was a good deal of discussion on the silver question on the other side, and hence the policies, not only that form of contract but others, were made pay-

29th day, May 25th, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

able in gold, to allay the fears of policyholders, and I think it was just owing to the circumstances that prevailed at that time that the term "Gold Bond" was adopted.

Q.—It was hoped, I suppose, that it would be an attractive name to give? A.—Yes, no doubt; and furthermore, while we did not do it, I think some other Canadian companies that were operating in the United States, besides American companies, made a practice of that kind, to insert in their policies, all their policies, "Payable in gold."

Q.—Then this is your non forfeiture benefit clause; it is the same on all your policies? A.—With slight changes that have been made in the verbiage from time to time. I think that policy may be a little different from those we are now using. It was printed some years ago, and very few of them have been written.

Q.—You do not take the same period as the Act provided in respect of the cash surrender value, two years premiums, but you take after three years premiums? A.—After three years' premiums.

Q.—There is a sound actuarial reason for that; I suppose? A.—Quite so.

Q.—Just state it to the Commission? A.—The reason that we make the cash value apply at the end of three years is that we could not afford to give extended insurance or other forms of non forfeiture at the end of two years consistent with the best interest of the policyholders generally.

Q.—The policy has not become self supporting, so that there is a cash surrender value in it, until three years? A.—Well, it would be a very small value. The cash values that we gave at the end of two years, or other non-forfeiture benefits, were so trifling that they caused more dissatisfaction than otherwise.

Q.—"The insured will be entitled after three full years premiums shall have been paid in cash on this policy, to any one of the following non-forfeiture benefits," etc. (Reads the non-forfeiture benefit clause endorsed upon the five per cent. Gold Bond policy.)

Q.—And I see your table here gives from three to nineteen years, and the twentieth year $604. Supposing the insured went on living after the twenty years, the table does not cover that? A.—I think that clause covers it at the footnote.

Q.—"Policies which may be continued after the 20th year shall be entitled to non-forfeiture benefits calculated according to the rules of the Association." These are figures which have been computed by you as the actuary, I suppose? A.—Yes, or under my supervision.

(The Commission then adjourned till Monday 28th, May, at 10.30 A.M.)

THIRTIETH DAY.

MORNING SESSION.

Toronto, May 28th, 1906.

JOHN K. MACDONALD, sworn. Examined by Mr. Shepley:—

Q.—Your position with the Confederation Life is that of Managing Director, I think? A.—It is.

Q.—And you were instrumental in the formation and organization of the company? A.—I was.

Q.—And you have been interested in it from the beginning? A.—Yes.

Q.—And you are familiar with its history? A.—Apparently so.

Q.—And you are familiar with its transactions? A.—Yes.

Q.—What stock do you hold? A.—I could not tell you at the moment, but I think I hold about 400 shares.

Q.—That we will have a little more accurately in a moment. And are you interested directly or indirectly in any other shares than the 400 that you speak of? A.—Not except as trustee.

Q.—You are trustee of other stock besides that which you own beneficially? A.—Some shares.

Q.—Then do you hold, or have you held for some years back consistently a large body of proxies? A.—No. The proxies are made out in two names, two or three names always: the President——

Q.—What are the names that are used? A.—The President, possibly, and myself. I do not know whether any of the Vice-Presidents' names were in or not.

Q.—Do you mean that the proxies are made out as joint proxies? A.—Yes: they may be joint, or either, possibly.

Q.—What is the total shareholders' vote, approximately? Perhaps you can tell me accurately? A.—Well, there is a million of capital, and $100 shares, and there is a vote for each share.

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—That would be, then? A.—100,000 shares.

Q.—10,000 shares? A.—Yes. 10,000 shares.

Q.—And can you tell me approximately to what extent the President and yourself, or those who, on behalf of the management, took proxies, have held proxies during the last four or five years? A.—I really could not say off-hand.

Q.—You cannot say off-hand? A.—No.

Q.—Not even approximately? A.—No. I do not think, with any definiteness, that I could.

Q.—I was only asking you approximately? A.—I do not know. They may have held 2,000 shares, but that is a very rough estimate: I really would not like to say.

Q.—I am not concerned to get it just at the moment more accurately than you are able to remember it? A.—I should think that would be the very outside.

Q.—Then we will commence perhaps with this blue book. You can tell me whether there is any change, perhaps. Take page 543. That is the list of shareholders according to the last Government return as to which we have been able to find a list, and I suppose there have been changes in the stockholding since then? A.—Yes.

Q.—But so as to save time, we may perhaps go on and perhaps you can point out to me now which of these stockholders, if they are still stockholders, are in any way related to you, or connected to you, or otherwise—I was going to use the word control, but I do not want to use that word—— A.—Oh, I will not take umbrage.

Q.—Or otherwise in such a position to you that their attitude towards your management may be considered to be friendly? A.—There is the Rev. D. B. Macdonald, who is my son.

Q.—What shares has he? A.—He has thirty shares, paid up $300. C. S. Macdonald, my son, has twenty-five shares. Those are the only two that I see here that are connected with me.

Q.—Then there is your own name? A.—Yes, oh, a moment: there is one before this: there is Miss C. H. Macdonald, my daughter, earlier in the list: she has 45 shares apparently. Those are all.

Q.—Who is H. J. Johnston, of Montreal? A.—He was our former manager in Montreal.

Q.—And what is he now? A.—Well, he has retired from our service in that way: we gave him a position as a local director.

Q.—He is a local director? A.—Yes.

Q.—Is he still a shareholder to the extent of 100 shares? A.—I could not say.

Q.—That you do not know? A.—No.

Q.—Then Mrs. Cherriman, of course, is not related to you, but she has held all the stock that Professor Cherriman originally had? A.—Professor Cherriman never had it: it was always in her name.

Q.—He was one of the original incorporators? A.—Yes.

Q.—That stock has always stood in her name? A.—Yes. It was never changed, never added to or subtracted from.

Q.—Have you held a proxy in respect of that stock? A.—No.

Q.—Never had? A.—I do not think I ever had.

Q.—Has any one of the management held a proxy in respect of that? A.—No.

Q.—Has it been represented at the meetings? A.—No. I should say proxies have been sent out when the notices are sent, but there has never been one returned; in fact there would not be time for it because they are sent out a short time before the annual meeting as a rule, and it certainly has not been returned.

Q.—Then the next holding that I want to ask you about is James Turnbull, cashier in trust. James Turnbull is the General Manager of the Bank of Hamilton? A.—Yes.

Q.—Do you know what stock that is? A.—I think those were shares that were originally owned by Mr. C. M. Gripton.

Q.—He and Mrs. E. J. Gripton have been considerable stockholders from time to time? A.—Yes.

Q.—Are they related in any way to you ? A.—Not in the slightest.

Q.—Not in any way? A.—Not in any way.

Q.—Have you had a proxy in respect of that stock? A.—No.

Q.—Of none of the Gripton stock? A.—No, I think Mr. Gripton would hold his own proxy. I do not think we have ever had it.

Q.—Has that holding been in sympathy with the management? A.—Not always.

Q.—Not always? A.—No.

Q.—Has it been for the last four or five years? A.—No; it has probably been for the last year or two years.

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—This is the list, is it? A.—Yes.

Q.—And this will be more convenient because it is alphabetically arranged. The largest shareholder is Miss Mizetta Cairns; who is she? A.—She is a lady residing in St. Catharines. I have not the pleasure of her acquaintance.

Q.—You do not know her? A.—I do not think I have ever met her or seen her.

Q.—Do you remember how she acquired the stock? A.—I think she got the stock through Mr. Gripton here.

Q.—That is part of the Gripton stock? A.—Yes. Mr. Gripton has had stock at different times; he has disposed of some, and that is part of it.

Q.—That will be perhaps the same holding we were looking at in the other list as Mr. Turnbull's? A.—Possibly; I do not know; I cannot undertake to say. She may have held it in her own right for all I know.

Q.—Then, speaking generally, who got the Hooper holding of stock? A.—His grand nephews and also his niece by marriage.

Q.—And is it still held by the family? A.—No; I think that some of it that passed to a grand nephew has been disposed of if I remember rightly.

Q.—What interests are those that are outstanding here? What names will those be found in? A.—I fancy there is one, Mrs. Jones. She probably got some; I could not be certain as to that; but Mr. Myers or Mrs. Myers—I think they got the chief part of it.

Q.—That is Alfred Myers of New York and Mrs. Elizabeth S. Myers? A.—Yes.

Q.—They are related to Hooper, are they? A.—Mrs. Myers is a niece of the late Mrs. Hooper; that is the only relation.

Q.—She holds now or did on the 31st December last——A.—And still holds.

Q.—$50,000 of that stock? A.—Yes.

Q.—Who is Mrs. Allen S. Macdonald? A.—Widow of the late William Macdonald.

Q.—Was he related to you in any way? A.—He was a second cousin.

Q.—Was that stock that he held, or was it stock that she has acquired since? A.—Stock that he held.

Q.—Then Maclean and Patterson in trust? A.—That is part of Mr. William Macdonald's stock also under his will.

Q.—Charles S. Macdonald is your son? A.—Yes. This is my daughter-in-law, wife of Mr. C. S. Macdonald.

Q.—Mrs. Ethel Macdonald holds $1,000 of stock? A.—Yes.

Q.—Robert F. Massey trustee—do you know for whom? A.—No.

Q.—Then your own holding $37,900? A.—Yes.

Q.—There is Mr. Turnbull still in trust $44,000? A.—Yes.

Q.—Then the Toronto General Trust Corporation $5,000; do you know anything about that? A.—No.

Q.—The estate of Winterbottom—do you know anything about that? A.—Yes; that was some shares that were originally held by a lady who subscribed—Miss Fanny Sibbold—she willed it to Miss Winterbottom, but Miss Winterbottom died a very short time after her aunt; and that is the Winterbottom estate. It remains in her estate.

Q.—Mrs. Wellington—do you know anything about that holding? A.—Yes; she is the sister of the late W. H. Gibbs.

Q.—Is that the Gibbs holding substantially? A.—That is all, I think.

Q.—And that was what Mr. Gibbs held? A.—No, he did not hold that; she had that several years before his death.

Q.—But he originally had it? A.—He originally had it.

Q.—Has that holding been increased, or has it remained stationary? A.—No, it remained stationary.

Q.—Is there any relationship there? A.—None whatever.

Q.—Then Mr. Wyld, I see, has $30,000 of stock? A.—Yes.

Q.—And the Hon. James Young; he holds beneficially as far as you know? A.—Oh, yes; he has held that from the organization of the company, and the new shares that he obtained afterwards.

Q.—Do you say, Mr. Macdonald, that you have told us fully all the interest, whether direct or indirect, you have in the stock of this association? A.—Certainly.

Q.—There is no interest, direct or indirect, so far as you are concerned, that you have not told us about? A.—Certainly there is not.

Q.—What shares—I do not see any here—do you hold in trust? A.—It is there sir.

Q.—I omitted to take notice of it? A.—There it is, in trust.

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—$7,200? A.—Yes.
Q.—Is that all you hold? A.—Yes.
Q.—For whom do you hold that in trust? A.—I hold that in trust for the estate of the late Colonel Perley.
Q.—You have no beneficial interest in that at all? A.—Not the slightest.
Q.—I want to see about the Gripton stock. Do you know about this holding of stock? A.—It was all sold.
Q.—You say he does not own it now? A.—No, he does not. His name is not in the list.
Q.—Can you tell me anything about that one? A.—No.
Q.—That seems to be on account of C. C. Bains? A.—I suppose it was used for the purpose of making temporary loans.
Q.—There seems to have been a good deal of activity at one time in that? A.—Yes.
Q.—Do you know anything about this? A.—I know they held stock for some time on which advances have been made, and that is all.
Q.—Do you know whose stock it was? A.—Yes. It was something I had myself. I purchased some stock on which a loan had been made.
Q.—I see you bought in trust 200 shares there. Was that part of your present holding? A.—I could not say about that.
Q.—Now, there is a very active account of your own in trust. I see the Gripton stock, or part of the Gripton stock, seems to have passed through your account in trust at one time? A.—Possibly. I think they conveyed some to me in trust which I held for a short time.
Q.—This is the Gripton account, G. M. Gripton account? A.—Yes.
Q.—In 1891 he seems to have—— A.—I presume he has simply purchased these shares through these brokers.
Q.—You do not know anything about the transaction? A.—No.
Q.—You took 80 shares from him in trust a long time ago? A.—Yes.
Q.—Which you held a short time, and then seem to have parted with? A.—Probably in connection with some advance made to him as agent.
Q.—He was your agent? A.—Yes, for a number of years.
Q.—Then there was a further transaction which you took in trust: you think that may have been in connection with advances? A.—Yes.
Q.—And all but 60 shares have been vested since 1900 in Turnbull? A.—Yes.
Q.—I understand you to say you do not know the nature of the transaction between Gripton and Turnbull? A.—I have no knowledge of it whatever.
Q.—Then has there been any connection with the Confederation Life Association, anything in the nature of what has been spoken of as a controlling interest in the stock vested in any one person, or body of persons? A.—Not that I am aware of.
Q.—You are not aware of it? A.—No.
Q.—You have never seen any signs of that? A.—No.
Q.—There is a prohibition in one of your later Acts of Parliament against anyone holding a certain number of shares? A.—I proposed that myself.
Q.—With what object in view? A.—To prevent the possibility of somebody seizing the company and wrecking it.
Q.—To prevent the possibility, in other words, of any person having the control? A.—Yes.
Q.—Then, with the exception of those who, at that time, held more than 500 shares, has that prohibition been respected in practice in the case of your association? A.—Yes. There were only two who held in excess of the 5,000 shares: those two were Mrs. Cherriman and the late Mr. Edward Hooper.
Q.—You mean, perhaps, to say 500 shares? A.—Yes, 500 shares, not 5,000 shares. Mrs. Cherriman's shares have never been changed. Mr. Hooper, for some reason I cannot state, parted with some of his shares, and then got them back again, but he was refused the privilege of holding shares in excess of the 500.
Q.—That is, if I understand you correctly, he reduced his holding to 500? A.—No; he reduced the holding, I do not remember to what extent, but he parted with a number of his shares, that brought him within the 500, and when he wanted to get back to his old place again he would not be allowed.
Q.—You say he got them back, but the registration of the transfer was refused? A.—Refused.
Q.—And the result was, as I understand you, that since then Mrs. Cherriman is the only holder of stock in excess of what the statute permits? A.—Yes; it was represented to me on Saturday that I may have for a short time held, either in trust or otherwise some shares in excess of the 500. The actuary mentioned that subject to me, so that that would be an exception, but that was merely for a short time, possibly two weeks.

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—That transaction would no doubt appear here. Last year, 1905, you seem to have had a transfer, which is not said to have been in trust, of 125 shares from Mr. Simms? A.—That was an actual purchase; but I purchased part of that for myself and part for another, took the whole transfer, and then transferred at once some of these shares, as you see there.

Q.—That made you the holder of 579 shares? A.—Yes.

Q.—And that you say was an actual purchase? A.—Yes.

Q.—And ten days later you transferred 100 shares to C. S. Macdonald, who is your son, I think? A.—Yes.

Q.—And on the 22nd November 100 shares to Colonel Macdonald? A.—Yes.

Q.—Then with respect to those two transfers, were those gifts? A.—No.

Q.—Did any money pass ? A.—Yes, I got my money for them, for those two.

Q.—You got your money for those from Colonel Macdonald? A.—Yes.

Q.—In cash? A.—In cash.

Q.—Had you any interest in those shares afterwards? A.—Not the slightest.

Q.—Do you say it was the intention when you purchased that that should take place subsequently? A.—Yes. This was promised out of the purchase absolutely.

Q.—That is the 100 to Colonel Macdonald? A.—Yes, and I had intended to hold the balance myself, and my son applied to me for these shares, and I gave them to him.

Q.—That is you sold them to him? A.—Sold them to him.

Q.—I suppose you sold them to him at the price you paid for them A.—Exactly the same price in both instances. I had several transactions of that kind, but I have never sold at an advance. I have simply transferred to those who were buying at the price at which I purchased.

Q.—You have extended the business outside the limits of the Dominion of Canada? A.—Yes.

Q.—Where are you dong business? A.—Newfoundland, Mexico and the West Indies.

Q.—You have not extended into the United States? A.—No.

Q.—But you have extended into the three places that you have mentioned? A.—Yes.

Q.—Which extension was made first and when? A.—Newfoundland, I suppose, was made 20 years ago—at least a long time ago; Mexico, I think, would be made about possibly five years ago, and the West Indies would be about four years ago possibly. I speak subject to correction, but that is about it.

Q.—The extension into Mexico was made before the extension to the West Indies; that is your recollection? A.—No, I am wrong. I am not quite sure as to that. I am wrong. They were made at the same time. I think our two representatives went together to the West Indies, and the one who went on to Mexico went from the West Indies into Mexico.

Q.—You have been doing business in the West Indies and in Mexico since? A.—Yes.

Q.—Have you pushed your business in both places, so that you have a very considerable volume of business in each? A.—Well, I cannot say—well, pushing is relative. We have been doing all the business we reasonably could, but we have had some regard to expense.

Q.—Has the business in either of these places been remunerative? A.—I think yes. I may say in the West Indies I think it is, and in the other it is becoming so very fast.

Q.—The early years of the establishment of a branch like that are the years during which the great expense is incurred? A.—Yes.

Q.—I see in your Minutes a reference to some report on the Mexican business, and the consideration of that report seems to have been deferred. Is that report available? A.—I do not know what report you refer to.

Q.—Then in connection with your foreign business have you made any deposits in the foreign countries? A.—Yes.

Q.—In Mexico? A.—In Mexico we have made a deposit of $50,000 silver, and we have purchased Mexican securities, I think, to the extent—gold securities probably to the extent of $100,000.

Q.—With regard to the West Indies? A.—We have made no deposit there.

Q.—What is that? A.—We have not made any deposit there.

Q.—Nor any investment? A.—Yes.

Q.—Have you made an investment in West Indian securities? A.—We have invested on mortgage in Trinided, I think perhaps four mortgages.

Q.—That is, you have loaned money upon real estate? A.—Yes.

Q.—To what extent? A.—Probably

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

$40,000; I am not exact but I think probably in that neighborhood.

Q.—Then in respect to all your investments, do you or do you not profess to have authority to invest in United States securities of any kind? A.—No, I do not think we do profess that.

Q.—You do not claim that power? A.—No. At one time I was under the impression that we either had or were about to get it. For example, cable stock; but we do not claim we have that power, because certainly the Act does not give it.

Q.—What power do you think you have in respect of Mexican investments? A.—The Insurance Act.

Q.—What do you think that permits you to invest in? A.—If you will give me the Act I will point it out to you.

Q.—Can you tell me in figures? A. —The clause reads—

"Any such life insurance company may invest in foreign security or deposit outside of Canada such proportion of its funds as is necessary or desirable for the maintenance of any foreign branch, provided that such investment, when not required by the law of the country where such branch is established, but deemed advisable in the interest of such branch, shall not exceed $100,000 Canadian currency."

Q.—Now, then, with regard to Mexico, what, under the circumstances, do you consider to be your power of investment there? $100,000 in addition to the deposit or $100,000 including the deposit? A.—Under the terms of this, I think it is unlimited.

Q.—How you mean unlimited? A. —"Any such life insurance company may invest in foreign securities or deposit outside of Canada such proportion of its fund as is necessary or desirable for the maintenance of any foreign branch, provided that such investment, when not required by the law of the country where such branch is established, but deemed desirable in the interests of such branch, shall not exceed $100,000 Canadian currency." I interpret that to mean that where a country demands a deposit there is the unlimited right. Where no deposit is required by the laws of the country it is limited to $100,000.

Q.—You do not think that the $100,000 measures your whole right in respect of all power, or that it measures that right in addition to the amount required for deposit? A. —Where the foreign State requires the deposit.

Q.—If the foreign State requires $50,000 deposit, you may make that deposit, and besides that you think you can invest to an unlimited extent in that country? A.—That is as I read the law.

Q.—That is as you read the Statute? A.—Yes.

Q.—Then you would say that you have not exceeded your powers in respect of your Mexican investments; that would be your view? A.—Clearly we have not.

Q.—That would be your view? A. —That is our view.

Q.—And as you use the word "clearly" I suppose you do feel very clear about that? A.—Yes. Well, I may say I have taken advice on it and consulted my solicitor in regard to it.

Q.—And you think that with the $50,000 of a deposit required by the law of Mexico in the hands of the Mexican Goxernment, you can invest a million dollars of your funds in your foreign securities? A.—If it were deemed desirable in the interests of the business.

Q.—Now I will follow up these Minutes of the board. On the 14th October, 1903, this Minute occurs—

"Re matters in Mexico. The Managing Director referred to matters in Mexico and the steps that had been taken by him in connection with the same, and that it was intended that the actuary should go down to Mexico leaving home a week from Saturday, 24th, and that nothing further would be done until report could be received from him in regard to the appointment of local directors." Does that bring it back to your recollection? A. —I know what it refers to.

Q.—What does it refer to? A.—It refers to matters that came before the Board as to the desirability of appointing local directors in the State of Mexico, about which considerable enquiry had been made. I myself went to New York to consult with certain persons there in regard to it; and it was then decided, in view of our decision, to send the actuary to Mexico, that the matter would be held in abeyance for his report.

Q.—Then the matter came up again on the 13th January, 1904? A.—That would be on the report of the actuary.

Q.—"Mr. J. J. Long called attention to the business in Mexico, and asked if there was any word in regard

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

to it. The Managing Director made verbal reply, and stated that the report of the actuary who returned from Mexico towards the end of the year was not being presented at this meeting, as the meeting was likely to be an unusually long one in connection with the ordinary business." You remember that? A.—Yes.

Q.—I see the very next entry in the Minute is "The Board then adjourned?" A.—Probably they had been in session far a long time.

Q.—The annual statement was read and approved; comparison of business of the year before with the year previous was submitted and read. That would not take very long? A.—No.

Q.—"The Minute books of the Finance Committee submitted, and the Minutes of its meeting read and approved?" A.—The minutes of the Finance Committee usually take a very long time, because every loan is considered in detail.

Q.—Minute book of the agency committee submitted; that would not take long? A.—It might and it might not.

Q.—Minute book Insurance Committee submitted and the summaries of its business were read and approved; that would not take long? A.—No, that would not take long as a rule.

Q.—Then the loan $1,100; Land and Loan Company, Montreal; the Managing Director reported the facts in connection with this case, and submitted the resolution attached hereto, etc. "On motion by Mr. Long, second by Mr. Osler, the resolution was duly passed;" any difficulty there? A.—No. That is simply needed under the laws of the Province of Quebec; an original resolution has to be passed on every occasion.

Q.—Then would the distribution of the directors' fees for 1905 take long? A.—No.

Q.—The language of this Minute is that this actuary's report was not being presented at this meeting, as the meeting was likely to be an unusually long one in connection with the ordinary business? A.—That may have been an oversight, and put in the wrong place. I do not think there is any importance attached to it anyway.

Q.—Then at the next meeting, which is the 5th February, this Minute is made just at the end of the meeting:—"The report of the actuary in connection with his visit to Mexico was before the Board, but in view of the length of the sitting it was left over for a future meeting;" do you remember that? A.—Yes—at least, I have no doubt of the fact of it. I could not have told you from memory.

Q.—Was the actuary's report subsequently presented and considered? A.—Yes.

Q.—I doubt if you are likely to be quite accurate. I have not been able to find it. Will you have the report obtained for me? A.—Yes, we can easily obtain the report, if we have the date of it.

Q.—It certainly is not in the Minutes near by? A.—It would not be there; there would be a reference to it there.

Q.—There is not any subsequent reference to it in any of the near Minutes but we will get that. Then we start with your view of your power of foreign investment as you have stated it; in Mexico unlimited; in the West Indies how? A.—It would be limited.

Q.—To what? A.—$100,000.

Q.—And it can be exercised to that extent if deemed expedient and necessary? A.—Yes.

Q.—Then no power to invest in United States securities? A.—No.

Q.—Now, in connection with your carrying on of your business, you have from time to time made what are called call loans to brokers and others on certain securities? A.—To some extent; to a limited extent we have. It is not a kind of investment we favor.

Q.—Among others I see that Messrs. Pellatt & Pellatt have been borrowers from you upon call loans? A.—Yes, upon a few occasions.

Q.—And I see that at one time you lent them money upon the security of Canada Northwest Land Company stock? A.—Very likely, yes.

Q.—Do you look upon that as an authorized security? A.—It is a security; we must have done so; it must have been taken as a security on land.

Q.—This was upon the stock of the Northwest Land Company? A.—I do not remember the transaction. When was that?

Q.—That was a long time ago; it is in the first year we have enquired about, 1891; a very long time ago? A.—Well, we must have supposed it was within our range or we would not have done it.

Q.—At all events you do not admit that you did? A.—No; if it is there we did it.

Q.—And if you did loan upon the stock of the Northwest Land Company, would you, upon your construction of the Act to-day, consider that that was

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

a proper loan? A.—I could not say, for I do not know the facts sufficiently to say.

Q.—You do not know the facts about Northwest Land sufficiently to say? A.—No.

Q.—Then more recently you loaned on Canadian Pacific Railway stock? What would you say about that? A.—I believe that is outside the Act.

Q.—That was in 1903? A.—Yes.

Q.—Apparently you loaned $15,000 on $5,900 worth of stock, or market value of stock, of the C.P.R., and $10,575 of Dominion coal? A.—I think at the same time we held a considerable block of it that we had actually purchased.

Q.—Which, as you have just told me, was outside the Act? A.—Well, I believed at one time that it was within the Act.

Q.—What about Dominion Coal, the other security for the $15,000? A.—That was outside of the Act; although at the time that was made I consulted the broker who came here to me, and he showed me it was one of those securities allowed by the Act, and I did not take the trouble to examine myself, and I think we made a purchase of $10,000.

Q.—I will come to that a little later on; at all events on this occasion you did lend $15,000 apparently on the security of these two stocks, neither of which was within the sanction of the Act? A.—If it is there we did.

Q.—Do you think you have power, or have you ever thought you had power to lend upon insurance company's stocks, either life or fire? A.—I think we have.

Q.—Do you think so now? A.—I do not know. I have no reason to change it. I know we made loans at one time.

Q.—That is why I am asking you, because you did. I am not able to find that class of security referred to in either enabling provision? A.—Well, then, possibly we had not.

Q.—Mr. Wilkes, of Brantford, I see borrowed money upon the security of Temperance and General Life, changed to Manufacturers' Life? A.—Yes, he had a loan from us. I do not remember just on what.

Q.—This is the schedule of securities which has been furnished us? A.—Perfectly correct.

Q.—I am assuming it is correct? A.—That is correct.

Q.—Who is Mr. Augustus Myers? A.—He is the nephew by marriage of the late Mr. Hooper, whose stock was referred to.

Q.—And what business was he in? A.—He was in no business at all since I have known him.

Q.—He seems to have been in business borrowing from the Confederation Life at one time? A.—Oh, yes, he borrowed some in connection with the building, I think.

Q.—I see he borrowed $19,520, and at one time the loan ran as high a $36,346?

MR. NESBITT: I am told, Mr. Macdonald, that you are making a mistake between Augustus Myers and Alfred Myers.

MR. SHEPLEY: Q.—Mr. Nesbitt says that you are confusing Augustus Myers with Alfred Myers? A.—Oh, yes, I am.

Q.—We want to have it put just as it is? A.—Well, I am wrong in regard to that; Augustus Myers—I cannot at the moment just place him.

Q.—Augustus Myers, Toronto—you do not place him? A.—No, not at the moment.

Q.—We will find out more about him later on? A.—I will get the information.

Colonel Macdonald. He was a contractor here at one time, and borrowed from the association, and later years he did not do anything, and he had stock in the Western Assurance Company—a director, I think, of the Western Assurance.

WITNESS: Oh, yes, I recall him now. He is still living on Sherbourne street, or did live there two years ago. He was a contractor and a man of considerable wealth.

Q.—Building contractor or railway contractor? A.—Railway contractor, and at one time he owned the Credit Valley Stone works. I remember him now. That was loaned upon various stocks, the Western Canada and various stocks.

Q.—The Western Canada, the Western Assurance Company, the British American Insurance Company, and the Freehold Loan Company; there was some of that? A.—Yes.

Q.—But you did hold shares to a very considerable amount of the Western Assurance Company and of the British American Assurance Company as security for this loan? A.—Yes.

Q.—I see that that was paid off in 1902? A.—It was paid off some years ago; it was reduced at some time and finally paid off.

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—Do you know Mr. Silas James? A.—Yes.

Q.—He had a small call loan from you which was finally exchanged for debentures in the Standard Loan? A.—Yes.

Q.—You held a security of the Manitoba & Northwest Land Company stock? A.—No, the Ontario Industrial, I think it was.

Q.—Apparently you had at first 88 shares of the Manitoba and North West Land Company's stock, together with 57 shares of the Ontario Industrial? A.—I think possibly that loan was made during my absence, in its first inception.

Q.—It was a long time ago? A.—Yes.

Q.—But it ran a long time? A.—It ran a long time.

Q.—It ran for 12 years and then you took debentures for it? A.—We took debentures. We also have a mortgage that is not realized, which covers part of it.

Q.—There is a firm of brokers, Wyatt & Co., they have borrowed from you from time to time? A.—Yes.

Q.—At one time I see as high as $51,000 they owed you, and $64,000 seems to have been the highest; that was in 1903, the transaction running from February through to August when the last payment was made? A.—That no doubt represents the facts.

Q.—Now you held as security for that Northern Navigation Stock, Canadian General Electric Stock, Canadian Pacific Railway Stock, Dominion Bank Stock and Commercial Cable Stock. You see that do you not? A.—Yes.

Q.—Which of those do you consider to have been unauthorized? A.—I don't know I am sure. I doubt whether that first would be on it.

Q.—The Northern Navigation you doubt? What about the Canadian General Electric? A.—Well, I have been under the impression that that came under the Act, that all these electric companies did. I may say as a matter of fact that I was not here when that loan was first made. However that does not matter.

Q.—No, that does not matter. Men may come and men may go but the company must do its duty? A.—Yes, then I think in the view you have of it, the Canadian Pacific Railway, or possibly there may be a doubt about that, and Commercial Cable as well.

Q.—You have a doubt about Northern Navigation; Canadian General Electric. You have not throught much about, but you know it is a manufacturing company? A.—An industrial stock.

Q.—The Canadian Pacific we have already spoken about and the Commercial Cable, that you would rule out? A.—Yes.

Q.—I see that you had $16,480 of stock of the Canadian General Electric and $28.350 of the Canadian Pacific and a small lot of Commercial Cable $935? A.—Yes.

Q.—Then are J. K. Nevin & Co. of Toronto also brokers? A.—Yes, I know one Mr. Nevin a broker, I fancy that is his name.

Q.—I see there were call loans there. The highest was $34,000. That was some years ago. It ran over four years and was paid off in 1898. That was almost altogether in its inception upon fire insurance stocks, British American and Western? A.—Yes.

Q.—600 shares of British American and 160 of Western Assurance Company. Then Shaw of Brampton had a small loan which ran over 4 years and was paid off in 1895. That was on the security of Bank of Commerce stock and 50 shares of Western? A.—I think that should be Brantford, not Brampton.

Q.—But there was the Western Assurance Company stock as part of that security? A.—Yes, if it is so stated there.

Q.—Alfred Myers was the gentleman you were speaking of a while ago? A.—Yes.

Q.—He had a small loan and it was partly upon a security of Confederation Life Stock? A.—Yes.

Q.—You do not, of course, Mr. Macdonald, profess to have power to lend upon your own stock? A.—No, I don't think we have.

Q.—It is pointed out to me that as the Act now stands fire insurance stock is not prohibited; life insurance stock is not permitted. That correction must be made, of course? A.—We must have a few of that kind before us, I think.

Q.—Then on this page there are a couple of loans on the security of your own stock? A.—Yes.

Q.—The late William Macdonald and Miss Elizabeth Massey, and that seems to have been the whole security that you had, your own stock? A.—Our own stock. The shares held in trust.

Q.—It seems to have been recognized as an unauthorized transaction because it disappears on the 31st of December

in Mr. Macdonald's case? A.—Mr. Macdonald gave his cheque in December and renewed the loan early in January.

Q.—It is always 31st December and 2nd January. Why was that form gone through then? A.—Simply for the reason that it was not strictly within the Act, I take it, and he paid it off and it was renewed.

Q.—He gave his cheque with the intention, of course, that it should be renewed? A.—No doubt that was it.

Q.—You save me a good deal of trouble about that by being entirely candid? A.—I have come to tell you the truth, of course, as I know it.

Q.—The same thing seems to have taken place in connection with Miss Massey? A.—Very likely.

Q.—That is on 31st December, while the loan was current it would appear to be paid off, and renewed again in her case on the 3rd of the following January. Then you have loaned monies to Messrs. Osler & Hammond on call? A.—Yes.

Q.—At one time as much as $61,000 odd. That ran apparently from December, 1902, to June, 1903, when it was paid off? A.—If it is so stated there. I cannot speak from memory.

Q.—I am speaking, of course, just from the account that has been furnished us and that loan seems to have been secured partially by Commercial Cable stock and partially by Canadian General Electric. That is by Commercial Cable, unauthorized, and the General Electric which is an ordinary industrial? A.—Yes.

Q.—Then Mr. Alfred Myers seems to have had a loan on 50 shares of Confederation Life? A.—Possibly, if it is so stated.

Q.—And that has the same features about it as in connection with the other two we have referred, paid off at each end of the year and renewed at each beginning of the next year? A.—Yes.

Q.—The same thing applies to the loan to Miss Letitia A. Jones, that was a small loan on the security of Confederation Life stock; paid off 31st December, renewed 3rd January and finally paid off on the 31st December, 1898. There was only one renewal? A.—Yes.

Q.—The same thing seems to apply to Mr. Gripton of St. Catharines, except that perhaps the loans are not identified in the same way, but they are all upon the security of the Confederation Life. There seems to have been three, one in June, paid off in October; one in November, paid off in December; one in January paid off in July? A.—As I said before they were temporary loans.

Q.—A. E. Webb, of Toronto, seems to have had a loan running from March, 1899, to August, 1901, partially on the security of General Canadian Electric, as you see? A.—Yes, those statements are doubtless correct.

Q.—Then D. J. Macdonald, who is he? A.—He lives in the city here.

Q.—Related to you in any way? A.—Yes, he is a nephew.

Q.—In business? A.—No.

Q.—He seems to have borrowed $24,900 altogether, entirely upon the security of the General Electric stock? A.—Yes.

Q.—That was in 1903 and that has the same feature that we saw in the others; it seems to have been paid off on the 31st December, 1903, and to have been renewed on the 2nd January, 1904? A.—I have no personal knowledge of it at all. I have no doubt the account is correct. When that loan was made I was in the West.

Q.—Has Mr. D. J. Macdonald any connection with the company at all? A.—No connection.

Q.—Then Mr. R. S. Baird, who is he? A.—He is the city agent.

Q.—The city agent of the company? He seems to have been carrying Dominion Coal Stock. I should gather from the looks of the account that he was carrying Dominion Coal, Bonds, I think. The same thing.

Q.—Bonds or stock, I do not know. The statement is headed "Loans on stock?" A.—Well, it might be on bonds.

Q.—I quite agree that that is not conclusive. That looks as if Mr. Baird was carrying this stock elsewhere and that the stock went down and he wanted margins and came to your company to borrow the money to put up upon the stock? A.—I really do not know whether that was the case or not. I have no knowledge of it. I should feel perfectly secure in making loans to Mr. Baird, because his vested interests in his renewals would cover everything we had.

Q.—At all events you loaned apparently upon 50 shares of Dominion Coal? A.—Possibly.

Q.—$2,200, and that also disappears from the account on the 31st December, 1903, reappearing on the 1st January, 1904? A.—I have on personal recollection or knowledge of that ex-

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

cept a recent loan made to him, I think it was last year.

Q.—This was paid off finally in July, 1904, and the security released? A.—Possibly.

Q.—I am assuming, Mr. Macdonald, that in the transactions which we have reviewed here, your company has given us a full statement of all the loans upon that class of security? A.—So far as I know there has nothing been omitted

Q.—Cases in which you are not able to speak because of your not having a personal knowledge of the transactions of the kind we have just been speaking about, is there anyone in the company who would know? A.—These loans must have been made by the actuary, or by the actuary and President while I was absent. I had many things to think of and I cannot recall everything.

Q.—Quite so, I would not expect you to recall everything, but was it customary for transactions of that kind to go through without appearing on the Minutes of one of your committees? A.—They would all go upon the records. They would enter into the statements that were submitted from time to time.

Q.—Was the proprietary or impropriety of making loans upon such securities as we have been speaking about ever discussed at your Board meeting? A.—Never.

Q.—What was the position there with regard to matters of that sort, would the loan be made first and the attention of the Committee be called to it afterwards.

Q.—The loan might be made and then it would appear in the statements as so much on loans on stocks or bonds, whatever it might be, reported through the cash statement.

Q.—You would consider it to be within your power as managing director to carry through a transaction of that sort and report it subsequently, rather than to take authority for it first? A.—Oh, I would consider myself authorized to carry out a transaction of a loan of that kind. That authority is supposed to be exercised by me just the same as the cashier of a bank would.

Q.—Then you would report it to your committee and the Committee to the Board and your action would be confirmed? A.—It would not always be reported in a formal way like that. That is to say to go upon the minutes of the committee.

Q.—I thought you said a moment ago it would always go upon the records? A.—It would go upon the records and go through the books and into the cash statement.

Q.—And that would be before the Committee? A.—That would be before the board.

Q.—But there might not be any formal minute with regard to it? A.—There would not be possibly.

Q.—There would not be probably, would you not say? A.—Probably.

Q.—I think with regard to most of them there is not any formal minute.

MR. LANGMUIR: I would like to ask Mr. Macdonald, as an investor of insurance funds, whether he thinks that there should be greater scope allowed in selecting securities for call loans than in the absolute purchase of securities? A.—I may say in reply that I have never been favorable to call loans at all and we have never gone into them to any very great extent, but I should consider it very necessary to exercise more than ordinary care in making loans of that nature.

Q.—You would not give any greater margin in taking securities hypothecated for call loans than you would in the purchase of them, you would not consider the fact that you have got the covenant of the borrower first and the security as well? A.—No, we never consider the responsibility of the borrower at all. It is the security.

Q.—I wished to know what your view as a lender of insurance funds was in that way? A.—We are always glad to get a good strong man behind, but that does not form a matter in the making of a loan.

MR. SHEPLEY: When you were away, would the power which you have just spoken of as being vested in you as managing director reside in anybody else? A.—Yes.

Q.—In whom? A.—In the actuary.

Q.—Would he have that power conjointly with you when you were there or would it only arise in his case in your absence? A.—In my absence.

Q.—Is there a by-law or a minute upon the subject of his powers? A.—Yes.

Q.—And that is the power that you say he had. Then there is a prohibition in your Act, I think it is the 27th section, against loans to officers. Has that been always obeyed by your company? A.—It depends upon what you would describe as officers.

Q.—For the moment I will leave the definition to you? A.—Well, I am an officer of the company, the Presi-

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

dent is an officer of the company, and the Vice-President. These are the regular officers. That has been followed out.

Q.—You would not include as officers any persons ranging below you in responsibility? A.—I think it would hardly be fair to do so.

Q.—Why? A.—Because I think it is generally understood that the officers are the responsible officers.

Q.—I do not know how you draw that distinction. Are not all of them responsible? A.—Well, for example we have an accountant. We do not call him an officer of the company; he is an employee of the company. There is a possibility of the actuary being an officer of the company.

Q.—What do you say of the actuary? A.—Well, in a sense he is an officer of the company, in that position of actuary, but I scarcely think he occupies the same position that I would myself.

Q.—In your absence he performs the same functions with respect to loans? A.—Yes, well, a director of the board might be appointed to do that. The by-laws provide for it as a matter of fact.

Q.—A director, of course, would be within the prohibition.

Q.—I see that someone for the association, in filling up one of these schedules, has spoken of yourself and the actuary as the chief executive officers? A.—Yes, so we are.

Q.—I suppose if you and the actuary are the chief executive officers, it necessarily follows that the actuary is an officer? A.—Yes.

Q.—Then I gather from what you have said that in respect of other officers than the President and the Vice-President and yourself and the directors, this prohibition has not been always kept in mind? A.—No, that is to say, the employees, advances have been made at times I think to the actuary and also to the others. A loan was made to myself at one time on my policies, part of which is outstanding still, but that was not borrowing in the ordinary sense.

Q.—That was not borrowing, you think? A.—No, because it was on my policies, I can borrow on my policies.

Q.—The Act does not say anything about the securities, you know. Just look at it again.

MR. NESBITT: The company is bound by its contract is it not, in a policy, to advance? A.—Certainly, and that was distinctly made.

MR. SHEPLEY: "No director or officer of the Association shall become a borrower of any of its funds." Are you drawing a distinction that he is only borrowing his own funds? A.—Practically; that is to say, the loans are upon the policies.

Q.—They become his funds if he keeps on making his payments and becomes entitled? A.—The payments are already made.

MR. NESBITT: Just the same as if he died, they would have to pay his widow.

MR. SHEPLEY: That I think would be a different thing. At all events what we are concerned with is the fact and it will be for someone else to declare about the principle. That has taken place, there have been loans upon policies in more than one case? A.—No, not that I can recall.

Q.—And there has been a loan you say to the actuary? A.—Advances have been made.

MR. NESBITT: To what extent? A.—I could not say to what extent. $1,000 possibly, something of that kind.

MR. SHEPLEY: I was not so concerned with the amount as with the fact.

Q.—And without security, I think? A.—Just an advance on account of salary.

Q.—How long did that continue? A.—Well, it was not supposed to continue very long.

Q.—We will look at the account if it becomes material. You told me when I was speaking of the loans to brokers and others of some actual purchases that you had made. Those will be found in this Exhibit, this schedule which is called "N" "Schedule of Securities?" A.—I don't know. Purchases that I made?

Q.—Yes, purchases of securities for the company, of course? A.—Oh yes.

Q.—I see that in the early history of the company you dealt very largely in municipal debentures? A.—Yes.

Q.—That was the favourite class of security apparently in those days? A.—Only in part. I think we always invested more on mortgage.

Q.—I mean apart from lending upon mortgages and real estate. I am interested in facing the extent to which you departed from the principle in your dealings; otherwise than upon mortgage. In 1891, for instance, you dealt, apart from mortgages, exclusively in municipal debentures. You

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

did not buy stocks or bonds at all? A.—I suppose not.

Q.—From 1892 to 1898 inclusive, the same. It was not until 1899 that you apparently first engaged in the purchase of other classes of securities, and in 1899 you commenced your investment in Commercial Cable Bonds? A.—Yes.

Q.—You did not do very much; in that year I find that you purchased bonds to the par value of $15,000? A.—We purchased bonds altogether I know to the amount of $25,000, but just what kind I cannot say.

Q.—And Messrs. Osler & Hammond were your brokers? A.—Yes.

Q.—Or perhaps you purchased directly from them? A.—We purchased through them, I think.

Q.—Through them or from them, I suppose it does not make any difference? A.—No.

Q.—Then in January of 1900 you purchased another $10,000 making your holding in all $25,000? A.—Yes.

Q.—That same year, in February, you invested moderately in Bell Telephone Bonds? A.—Yes.

Q.—Apparently to the extent of $9,000? In those days, Mr. Macdonald, you did not apparently invest the money until you had to invest? A.—Not as a rule.—We have on one or two occasions.

Q.—But up to 1899 and 1900 you do not seem to have ever loaned money that you did not have already on hand to loan, or invested money that you did not have to invest. In other words, up to that time you had never anticipated your ability to invest. That is right is it not? A.—I think so. I don't think that at any time we have done that.

Q.—At all events at present I am concerned with making that clear. Then in that same year, in 1900, you made some investments to the extent of $75,000 in Quebec Harbor Trust bonds? A.—Yes.

Q.—Can you tell me speaking generally, what the security lying behind those bonds is? A.—Practically Government security, the Government of the Dominion.

Q.—Do you say they are guaranteed by the Government? A.—Practically guaranteed by the Government.

Q.—They are, of course, a good security and you have always held them? A.—Yes.

Q.—You have never given them up. Then in the same year you made an investment in November in the bonds of the Toronto Hotel Company, $10,000? A.—Yes.

Q.—Will you tell us about that, please? A.—The facts are there. They are mortgage bonds and the Board thought it desirable to make the investment that is there set forth.

Q.—Do you know what the total issue of bonds was? A.—I knew, but I could not say off hand now.

Q.—You did know yourself? A.—Oh, we did know, because the facts were all before the Board and very fully discussed.

Q.—Yes, I have been interested in reading the discussions of the board. Now will you tell us how your company came to make that investment. A.—It was simply a proposition put before the board and they considered it. I think it was Mr. Amilius Jarvis who was the medium of bringing it before the Board.

Q.—It was not supposed to be a gilt edged investment was it? A.—Well, some members of the Board seem to have more confidence in it than I think I had myself.

Q.—There was more public spirit behind that investment than there was anxiety to make a return for the money, was there not? A.—Well, there was certainly public spiritedness behind it, I think, but at the same time that public spiritedness was followed up by a statement of the belief that it was a good security.

Q.—You still hold those bonds? A.—Yes and we get interest half yearly upon them.

Q.—At what rate? A.—5 per cent. I think it is.

Q.—They are not marketable, of course? A.—I have never tried.

Q.—You know that, do not you? A.—No, I do not know that. We have never tried to sell.

Q.—There may be a reason for that. You do not consider them to be a marketable security to day, do you? A.—Well, I have not seen any sales noted and they are not on the market so far as I know. Whether they could be sold or not I am not in a position to say.

Q.—Then that was for 1900? In 1901 you purchased more Bell Telephone bonds and you also purchased the Toronto Electric Light Company's bonds to the extent of $25,000. Apparently this schedule has been made out in a way which is a little troublesome for us to follow. There is Toronto Electric Light Company 4½ per cent. bonds $25,000. That is under

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

the head par value. Then comes $25,000 price rate 101½. That figure cannot be right, can it? A.—No, I don't think it can, that price, if it is at a premium of 1½ they must have cost more than $25,000.

Q.—That seems to run all the way through here in some cases. Then Bell Telephone on July 30th of that year, 1901, you purchased $25,000 at 113, and the price there seems to be carried out at 113, $28,250? A.—Yes.

Q.—Then in December you bought from Ames & Co., Bell Telephone again to pay you 41-8 and they were 5 per cent. bonds, $8,632.80 appears to be the par value and $8,632.80 seems to be the cost. I wish you would tell me about that because that seems inexplicable to me, either of those figures? A.—Well, I don't think that can be correct.

Q.—That would not be a par value? A.—Possibly that should be merely the $8,000 and this would represent the premium. You must remember I am more ignorant of this statement than you are because I have not seen it and I was in the West Indies and I have had too much to do since I came home to go through these figures.

Q.—You remember that you did buy Bell Telephone bonds? A.—I know we bought bonds from time to time.

Q.—That transaction was on the 2nd of December that I have just pointed out to you. On the 31st of January, 1902, there is a similar transaction in Bell Telephone $57,367.20, carried out in each figure, and those two figures added together, the 57 and the 8 make exactly $66,000. Does that throw any light upon it? A.—I cannot tell you anything about it without going back to the original entries. We can have it looked into.

Q.—I am sure you will, but can you tell me this, it would not be, as far as you can see, at all possible that you should buy bonds of a par value of $8,632.80? A.—It is not usual. I am inclined to think a mistake has been made there, that that should be probably $8,000 and this really the premium on it.

Q.—I was inclined to think so too but those two when added together make exactly $66,000? A.—But they are bought at different times apparently and these represent the dates of the purchases. This may not necessarily have the slightest connection with that.

Q.—Except that they together make up an exact round figure? A.—Yes, they may do that. I think the mistake is that probably the premium has been put in.

MR. NESBITT: We will get the ledgers up. It is plain that a mistake has been made? A.—I am sorry you have had trouble, because if you had referred to the office that could have been saved at once.

MR. SHEPLEY: Now I have got into 1902. During all these years you were still investing very considerably in municipal debentures? A.—Yes, and in industrials too, such as telephone.

Q.—I am trying to distinguish between the two. Municipal debentures form a class by themselves. Then investment in commercial bonds is a different class of investment. Your transactions were not comparatively very large up to the time we have now reached, 1902? A.—We were simply putting so much in debentures.

Q.—And your investments in what I call commercials were comparatively small as compared with your municipal debentures? A.—For the reason that it was only in 1899 that extended powers were given in connection with these investments.

Q.—You must remember, of course, that you have greater powers than the general Act gave you before 1899? A.—I don't think we had.

Q.—Colonel Macdonald told us that you have always considered that you had which ever power was wider? A. —Yes, we certainly would exercise it, but I am simply pointing out that it was then we were authorized and it was only subsequent to that that we have invested in stocks, for example. In our own Act we could invest on the security of certain stocks but in the Amendment in 1899 the power was given to invest in.

Q.—This seems to be the power you had in 1890; a new section 21 was passed? A.—Well, I think it was the old re-enacted.

Q.—Then your present Section 21. However, I will not take time over that; we can straighten that out hereafter. What you say sounds entirely logical and reasonable, that you treated your powers as being implemented by the general legislation of 1895? A. —Yes.

Q.—Then in 1902 besides the Bell Telephone purchase that we have referred to, what is this Sydney Mines, is that municipal? I think there is a place called Sydney Mines? A.—Yes, that is municipal.

30th day, May 28th, 1906.

Q.—Then you commenced purchasing Mexican Government bonds? A.—Yes.

Q.—That was in connection with the extension of your business into Mexico? A.—Yes, I fancy that was for our deposit. The first purchase would be for our deposit.

Q.—Apparently it was $19,438.45, bought at 92, so that cannot be quite right either. However, we will have that all cleared up together. Then you bought Calgary & Edmonton, what was that, railway bonds? A.—No, they were land bonds.

Q.—Land bonds issued by what? A.—By the railway, bonds issued on the security of the land.

Q.—But issued by a railway company? A.—Yes, by the Calgary and Edmonton. No, that is a land company.

Q.—Just pausing there, was that a security in which you were authorized to invest according to the Act as it was passed in 1899? A.—That was the opinion of the Board when they decided to purchase, because they were land bonds, practically first mortgage bonds.

Q.—That is they were bonds issued by a land company secured by a mortgage to trustees upon their land holdings? A.—Yes.

Q.—And in that sense you looked upon them as mortgage securities? A.—Yes.

Q.—You would make inquiries about that at the time? A.—Oh, it was fully discussed before the board.

Q.—Apparently you bought to the extent of $45,000 paying 96? A.—Yes.

Q.—Then in 1903 you seem to have purchased some Nova Scotia Steel? A. Yes.

Q.—And also some Dominion Coal, $9,000 of one and $7,000 of the other. Those you now know to have been unauthorized? A.—At that time we bought these under the supposition that they were allowed by the Act. It was not until a year afterwards or more that I learned.

Q.—You bought the Nova Scotia Steel from Osler & Hammond and the Dominion Coal from Ames & Co? A.—Yes.

Q.—Then you apparently bought some more Nova Scotia Steel through R. Wilson Smith. Who is he A.—A broker in Montreal.

Q.—That year you also went into Montreal Light, Heat and Power to the extent of $75,000, and those you still hold? A.—Yes.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—Then in 1904 you went into Victoria Rolling Stock. What is that? A.—That is a company that provides rolling stock for the C.P.R.

Q.—Where are its operations carried on? A.—Toronto. The rolling stock is rented to them and so much paid off each year, a certain per centage.

Q.—You bought that for 4¾ paying $67,000 odd for 63,000 dollars of the stock? A.—If it is so stated.

Q.—Then that year again you seem to have gone into Mexico Government Bonds? A.—Gold bonds, I fancy, yes.

Q.—That seems to be different from the Mexican Government bonds of 1902? A.—Yes, the one is silver bonds and the other gold.

Q.—The Government bonds purchased in 1902 are payable in silver? A.—In silver. That is the law of the country.

Q.—And not payable until 1924 while those purchased in 1904 are due in 1915 and bear 5 per cent. interest also, and you say they are payable in gold? A.—Yes.

Q.—Do you remember whether any of these transactions were initiated or commenced in 1903, these Mexican Government Bonds? A.—I could not say. We gave orders to try and purchase these. They were not easily obtained and I cannot say when we first gave the order to purchase. I think as a matter of fact we had to communicate with the London Market.

Q.—Your total holdings seem to have come up to about $100,000. Were these bonds expressed in pounds or dollars? A.—I am sure I could not at the moment say, but I think they are in pounds.

Q.—There is the same thing here, 7,000 and 7,000, 10,000 and 10,000, although you were purchsing at 100.43? A.—Yes, we had to pay a small premium.

Q.—So that those figures require amending? A.—Yes, they must be incorrect.

Q.—Then in 1905 you purchased Winnipeg Electric Ralway? A.—Yes.

Q.—You purchased Niagara Falls Park and River Railway, and otherwise confined yourself to municipals as far as this statement shows? A.—Yes, with bonds; then, of course, with stocks we had purchased others.

Q.—But you confined yourselves in your transactions in 1905, with the exception of Winnipeg Electric Railway, amounting to altogether? A.—

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Well, we had a considerable holding of them.

Q.—About 121,000? A.—We had no object, we were just buying on the merits of the bonds when they happened to be on the market.

Q.—Niagara Falls Park and River, $50,000, and the balance of your investments in that year, which amounted altogether to $461,000, would be made up of municipals? A.—I think so.

Q.—That is the end of that statement. Now you have given us next a statement of the bonds you have sold. You have sold 2 lots of municipal bonds, New Westminster and Brandon? A.—Yes.

Q.—You have made a profit upon New Westminster bonds of $1,140 and you have made a loss on the Brandon bonds of $116. How was that. Had you not purchased closely enough? A.—What does your question refer to?

Q.—To the loss on the Brandon bonds? A.—We decirded to sell the Brandon bonds because Brandon was getting into a very bad condition. We had an offer for them through a broker—I don't remember what broker—and we sold them. There must have been a slight loss in the matter.

Q.—If you had reason to anticipate that there would be a failure to collect the bonds in full you would be justified in selling? A.—There was a rumour that they were applying, and they did apply, to the Legislature for relief, and we had reason to anticipate that, and that was the reason we sold them.

Q.—Then you sold your land bonds of the Calgary and Edmonton? A.—Yes, because of the possibility attaching to them; the possibility was, the head office of the institution is in London and certain of these bonds could be recalled by public notice; that is to say paid off. There was a certain number of them drawn and paid off each year. The advertisement in regard to them appeared in a London paper and might not be known here. As a matter of fact some of the bonds that were held by us were those that were drawn. We did not know of it till long after, but under the notice the interest for the time was prevented, and we considered it undesirable to hold bonds where that might occur again and therefore we sold them.

Q.—That was a disability which attached to the bonds from the beginning? A.—From the beginning.

Q.—That perhaps had not been noticed, or if it had been noticed not enough significance had been attached to it when you purchased? A.—I don't think I paid sufficient attention to notice that. However, it was the fact that decided the sale.

Q.—Then you also got rid of your Nova Scotia Steel and Dominion Coal? A.—Yes.

Q.—Both of them at a slight loss? A.—Yes.

Q.—The application of Brandon for relief, you mean by that lookng towards the repudiation of their obligation or part of it? A.—Well, yes.

Q.—Then those were the bonds and debentures purchased and you have also been good enough to furnish us with a statement of the stocks which have been purchased. You have purchased Consumers' Gas Stock? A.—

Q.—You purchased Commercial Cable Stock? A.—Yes.

Q.—Canada Permanent Mortgage Corporation? A.—Yes.

Q.—Ontario Bank? A.—Yes.

Q.—Bank of Ottawa? A.—Yes.

Q.—Dominion Bank? A.—Yes.

Q.—Bank of Hamilton? A.—Yes.

Q.—Bank of Ottawa? A.—Yes.

Q.—Imperial Bank? A.—Yes.

Q.—Canadian Pacific? A.—Yes.

Q.—And Commercal Cable again? Then in 1905 you purchased, what is that, the Mackay Company? A.—It was not purchased, it was the transfer of the Cable stock that went into what was called the Mackay Companies.

Q.—What are the Mackay Companies? A.—It is really the same as the old Cable Company.

Q.—It is a sort of trust which controls several cable and telegraph companies? A.—Yes.

Q.—The Mackay Companies do not furnish any information of their operations, do they? A.—There is a regular report of the Cable Company each year.

Q.—That is of the subsidiary company, but of the Mackay Company itself? A.—Oh no, I have not seen anything of the Mackay Company.

Q.—Do you know anything about their method of operation? A.—No.

Q.—They control, of course, all the subsidiary corporations? A.—But they seem to keep separate accounts in their dealings with them.

Q.—And they assess so much upon each Corporation according to the dividend they want to pay? A.—No.

Q.—Into the central company? A.—I don't know about the central company, but so far as the company represented by our shares in the Cable

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Company, it shows that it is paid from the earnings of the Cable Company itself.

Q.—We are not talking about the same thing. You have in the first place a large holding of stock in the Commercial Cable? A.—Yes.

Q.—A very considerable holding. Do you know how much altogether? A.—I don't know I am sure. I think originally we had probably about 7 or 800 shares before the readjustment. It is not safe for me to speak from memory.

Q.—When you say readjustment I do not know whether I understand you. A.—A proposition was made to have these shares transferred and accept the new stock of the Mackay's Company, and that was done. In connection with it there were two shares of the new for each one of the old and then there were also two shares given, if I remember rightly, of the common stock. That is the preferred shares became two and also the common stock two.

Q. Then do I understand you to say that the Commercial Cable stock, your total holding in that was converted into Mackay's stock? A.—Yes, receiving from it two preferred shares for each share of the Cable stock and two shares of common stock.

Q.—Then that transaction does not appear upon this schedule, because the Mackay Company only appears at $8,542.16? A.—That is a subsequent purchase probably. The cleaning up of it would show.

Q.—The Commercial Cable which you have spoken of as being converted still stands in the schedule you have furnished us, as Commercial Cable, it does not show conversion? A.—I don't know as to that. It is the case at any rate. These have been all sold.

Q.—When? A.—They have been sold this year and they have been sold at a profit to the company of $65,-0000 odd hundred, and it is a shame to have to sell such good securities, but still we have to do it, because it is outside the law.

Q.—Then you sold also your Canadian Pacific? A.—Yes.

Q.—And you made a very considerable profit there? A.—We made something over $68,000 on Canadian Pacific.

MR. SHEPLEY: That finishes a subject and perhaps it would be convenient to adjourn. There are some of these book-keeping items in which, during the adjournment, I want to get these mistakes cleared up. The time will not be wasted at all.

(At 12.55 adjourned to 2 o'clock.)

AFTERNOON SESSION.

—Resumed at 2 P.M., May 28th, 1906.

—Examination of Mr. J. K. Macdonald continued:

MR. SHEPLEY: I see, Mr. Macdonald, in the Finance Committee minutes of the 26th February, 1904, that you reported that after consultation with the President and Vice-President you had authorized Messrs. Osler & Hammond to purchase up to $100,000 of the five per cent. Gold bonds of the Republic of Mexico. The Committee approved? A.—Yes.

Q.—It was in consequence of that authorization that the transaction in Mexican gold bonds which afterwards took place? A.—Yes.

Q.—And that had no connection at all with the purchase of the silver bonds in 1902? A.—None at all.

Q.—Were you contemplating then buying gold bonds to the extent of $100,000 in addition to the silver bonds? A.—We were doing that as we thought it would strengthen our position in the country.

Q.—That is in Mexico? A.—Yes.

Q.—In view of your opinion expressed to me this morning that your power of investment in Mexican securities was unlimited? A.—Yes.

Q.—I have here what has been given us by your people, and which we looked at for a moment this morning and we came to the conclusion that that could not be quite right, and there is one cross-entry at all events and therefore I have got from your people a statement taken from the books of Messrs. Osler & Hammond? A.—Our own books will show what is correct.

Q.—I am more familiar with this now than I am with your books, and if we can get it from this to your satisfaction, so that you will be satisfied it is right, I will be content? A.—(Witness looks at debenture register) The silver bonds come first, do you want those?

Q.—No? A.—There is the gold bonds, and here is apparently the different purchases, and that answers the question you asked me this morning—the cost of that purchase which would amount to $50,925, stands us $51,-026.83, that is the cost—

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—I think I can develop that in a little more detail in the Osler & Hammond account; on the 10th March Osler & Hammond account shows that they purchased for you £3,500 of these bonds at 100 3/8? A.—There it is there.

Q.—Is the price shown? A.—Yes.

Q.—And the date is shown 10th March, 1904? A.—Yes.

Q.—And the total price which Osler & Hammond paid out for them seems to have been $17,165.33? A.—Yes; that is not entered here, the whole amount.

Q.—We will probably get that exactly from this account which is at the end; on the same day you seem to have given them your cheque for $17,000? A.—Very likely, I do not know; you see they were buying more.

Q.—Do you recollect how you paid Osler & Hammond, from time to time as they bought? A.—They sent up their broker's note, we usually got it by the mail in the morning, and a cheque went out on that note the same day we received it.

Q.—Can you account for the reason why the amount of the cheque they paid was $17,165.33, while the amount of your cheque was just the round sum of $17,000? A.—Not unless they made it just because they were buying more. For example, here is a purchase within a few days afterwards, different purchases, the 10th, 15th, 17th and 21st.

Q.—On the 15th March they purchased $1,000 of these bonds at 100 5/8? A.—Yes.

Q.—Paying out for them $4,914.33, and they seem to have got your cheque that day for $5,000? A.—Yes.

Q.—On the 16th another $1,000? A.—Yes.

Q.—That was at 100 3/4? A.—Yes.

Q.—And they seem to have paid $4,921.43 for them, and your cheque went to them for $5,000, that left a debit balance of $1.09 against you according to the Osler & Hammond account? A.—Yes, and there was a further purchase.

Q.—Then on the 21st March they purchased £5,000 at 100 3/8, paying out $24,511? A.—Yes.

Q.—And thereupon you sent them your cheque for $10,000? A.—Yes.

Q.—Can you explain why you did not send your cheque for the large amount? A.—No. I see that the total purchases up to that date amount to £10,500, and they stand in our books, the price paid for them is $51,026.83, that is lumping all these purchases.

Q.—What I am concerned with at the moment is this, if you can tell me, when they had purchased to the extent of $24,511, you only sent them $10,000 at that time? A.—I do not know I am sure why.

Q.—Can Colonel Macdonald explain that? A.—I do not think he could; I do not know without reference to the original broker's note, what reason there would be for it; certainly it has no significance as to anything behind it.

Q.—That left $14,512.09 to your debit, and that debit was not made good till the 10th June? A.—That was very possible, that they purchased, and the funds may not have been in hand, and came in a few days afterwards and paid off; it may have been, but I do not know.

Q.—You think it is possible you may not have had the funds on hand at the time? A.—That only occurred to me as a suggestion.

Q.—Was it any part of the arrangement with Osler & Hammond that they should carry it for you? A.—No.

Q.—That apart from the question of the possibility of your not having had a sufficient sum on hand at the time no other explanation occurs to you of why that stood for two and a half months? A.—I don't know, unless it was by arrangement that they were to do that. Of course we had no difficulty in getting funds. Our bank would have cashed our cheque. It may have been there was some arrangement for them to carry out.

Q.—They were charging you interest? A.—Yes, they would charge probably interest on the bonds.

Q.—Tell me please what sum you have there as the precise cost of these bonds? A.—That is of this block?

Q.—Yes? A.—$51,026.83.

Q.—Does that include the interest? A.—No, I fancy that would be the bonds; the interest would be charged to a different account, that would be for the bonds themselves.

Q.—What I find about that in this account is that on the 10th June you send your cheque for $15,000, they charge you up interest at 5 per cent., $101.36, and they returned you cheque for $292.85; that would leave the bonds standing you including interest, as I make it out $51,707.15? A.—This is the correct amount, I do not know how you make that out.

Q.—I am only speaking from this account; do you remember the circumstances? A.—No; I remember the

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

purchase very well. If these were held any length of time, and they paid the money, of course they would charge me interest when we were finally settling up, but that is the cost of the bonds to the company at the price at which they were purchased.

Q.—Does that book enable you to say when you squared up? A.—No, this is merely the entry. The other ledger would probably show when we gave the cheque for it.

Q.—On the 29th June Osler & Hammond bought another $9,500 according to their account at a cost to them of $47,868.60, plus insurance and postage $32.26; making a total of $47,900.86? A.—There is the entry; these surcharges would be charged to another account.

Q.—And opposite to that you have written "Stand us $47,868.60?" A.—Yes.

Q.—That seems to be in the Osler & Hammond account the amount of the purchase excluding insurance and postage? A.—Yes.

Q.—And that purchase was made at 102 7-8 and commission? A.—Yes.

Q.—That was the 29th June, and on the 11th July you seem to have paid them $20,000 on that account? A.—Yes, possibly.

Q.—Is there any other book of yours that would help you to assent to these figures? A.—I can assent to them readily, because I am satisfied they are perfectly correct. They may have been carrying these bonds for some few days or for a few weeks, and of course these payments that are set forth there would correspond with the length of time they had been carrying them.

Q.—That depends upon what you mean by a few days or a few weeks, I want to get the exact facts with regard to it? A.—That ledger there will show when the cheque was issued.

Q.—You understand that I would like to have your assent, but I want it to be entirely voluntary? A.—Certainly. I am very glad to give you all the information in my power. What is the first date?

Q.—The first date was the 29th June when the bonds were purchased in Osler & Hammond? A.—That is not in this ledger at all.

Q.—Had you at or about the same time given them any specific instructions in regard to the purchase of any other securities for you? A.—Not that I am aware of, I cannot tell you from memeory.

Q.—Do you remember when you decided to buy Consumers' Gas stock? A.—We decided that at several times; our purchases were made at different dates. We may have purchased some through them, and we purchased some through Pellatt & Pellatt, I remember.

Q.—Through Osler & Hammond you purchased 610 shares in October and November, 1904? A.—It is very possible, I have no doubt we did.

Q.—I will just have these figures put upon the record; after the cheque in July the next transaction seems to have been this, that on the 30th September Osler & Hammond charge you up interest $383.33; you were paying interest therefore upon the balance of the purchase money to Osler & Hammond? A.—I presume that would be the case.

Q.—And that would be interest at 5 per cent.? A.—Yes.

Q.—That was the rate that governed, was it— A.—I presume whatever the rate stated there.

Q.—It is stated here at 5? A.—That would be correct.

Q.—Then in October and November ranging over a very few days, from October 28th to November 8th, they purchased 610 shares of Consumers' Gas stock for you? A.—Yes, possibly.

Q.—That was made in five purchases, first 460 shares at 210½, $47,472.50; then 115 shares at 210½, $12,118.12; then 20 shares at 210½, $2,107.50; then 14 shares at 210½, $1,475.25; and then one share at 210½, $110.37? A.—I have the account of the Consumers' Gas here.

Q.—Having acquired those 610 shares for you they continued to hold them, and they were also holding these £9,500 of Mexican? A.—I cannot speak from memory whether they were doing so or not.

Q.—The account shows when these were delivered a little further down, and I am speaking from this account? A.—Yes.

Q.—On the 30th November and not before you paid them another $10,000? A.—It is quite correct I have no doubt.

Q.—On the 6th December you paid them $20,000? A.—No doubt we did if it is stated there.

Q.—I want to call your attention to the position of the account during this period; in June you see they had advanced over $47,000, in July you had paid them back $20,000, making a debit of $27,900. In September they had charged up interest, in October

30th day, May 28th, 1906.

Confederation Life
(J. K. Macdonald, Ex'd.)

and November your debit had increased by reason of the purchase of this Consumers' Gas stock to $42,572.93, and on the 30th November you reduced that by $10,000? A.—Yes, they were simply buying on our instructions on our account for delivery later, I presume.

Q.—You were entitled to delivery whenever you chose to pay? A.—Yes.

Q.—That is so always when a broker buys for you? A.—Yes.

Q.—Are you able to speak of that cheque on the 6th December for $20,000 ,how was that treated in your books? A.—The books themselves will show, I could not tell you from memory.

Q.—Is the book here which will show? A.—We have sent for it.

Q.—What I find from Osler & Hammond's books is this, that of that $20,000, $17,868.60 was allocated to the Mexicans? A.—Very likely.

Q.—Which would make the balance of $47,868.60, which appears in your books? A.—I presume so, I have no doubt in paying a cheque, where the two purchases were there, it would be simple to suggest to them to put so much to one and so much to the other an ordinary business transaction.

Q.—Can you tell me when that allocation to the Mexican bonds of a specific part of this $20,000 cheque was made? A.—At the date when the cheque was sent I presume.

Q.—I find on the 21st December which was two weeks later, the £9,500 of Mexican bonds are said in this account to have been delivered to you? A.—Yes.

Q.—Treating it so, as you yourself treated it, that would mean that you had purchased bonds through Osler & Hammond in June which were not delivered to you until December 1st, and which you did not pay for in full til December? A.—I presume it would. The ledger is here now, it you wish to see it. (Produces.) Here are the Mexican bonds, there was $7,000 apparently paid on the 10th March, and there was $10,000 again the same day.

Q.—That is the earlier part of the year? A.—Yes, and on the 15th there was $5,000, and on the 17th there was $5,000, the 21st $10,000, June 10th $15,000, and July 11th $20,000.

Q.—July 11th would be in respect of this second lot? A.—Very likely.

Q.—What you have given me down to the payment on the 21st is applicable to the first half, and you have dealt with that very fully? A.—Yes.

Q.—Commence with the payment on July 11th? A.—$20,000. Then there is an entry here of $15,000, which however is taken out by a cross-entry.

Q.—I am leaving that cross-entry out altogether; the account is embarrassing enough without going into the cross-entry? A.—I do not see anything embarrassing about it; there are the accounts and they are plain enough.

Q.—I have no intention whatever of using any language which will provoke you at all; I meant it was embarrassing to me; I am not a very good bookkeeper to follow the transaction, and I wanted to leave that $15,000 out to make it simple? A.—Still the remark going forward as everything does, go into the newspapers is a very—

Q.—Yes; now you know what I mean? A.—There is another payment in November of $10,000, and then there is a payment in December of $17,868.60.

Q.—That is what I have deduced from these accounts, so that that $17,868.60 was in truth part of a cheque for $20,000? A.—It may have been applied partly to this and partly to another.

Q.—Partly to the Consumers' Gas Company? A.—Perhaps so.

Q.—After that payment of $17,868.60 you became entitled to, and on the 21st December you got your £9,500 of bonds? A.—I presume so.

Q.—So that that puts an end to that for the time being at all events; we have already seen you had purchased 610 shares of Consumers' Gas in October and November amounting to $64,283.74? A.—Consumers' Gas, I see on the 6th December, 1904, $10,000, and on the same date there is $2,131.40.

Q.—That seems to be the complement which with the $17,868.60 makes up that $20,000 cheque? A.—Very likely it does; and then there is a further payment on the 30th of the month, the Consumers' Gas, of $40,368.60.

Q.—Do you know how that was paid? A.—Paid by cheque I presume.

Q.—Let us go back for a moment, because I want to get that put just as you will say it is in a moment; do you remember that the transaction with regard to the Consumers' Gas stock was closed up by your handing over certain Calgary & Edmonton land bonds for sale, and by Osler & Hammond selling those bonds for you and giving you

credit for their proceeds? A.—I know that was done, but whether it was that particular date or not I cannot say from memory.

Q.—On the 6th December, as you say, there was $2,131.40, parcel of that $20,000 cheque? A.—Yes.

Q.—And on the 6th December there is a cheque for $10,000 besides? A. —Yes.

Q.—And on the 31st December the Calgary & Edmonton bonds are credited to you as having been realized, $25,-793.33? A.—Yes.

Q.—Then there is some interest? A. —That is interest on the bonds.

Q.—There is nothing else paid? A. —No, that would be it, and then there was also on their hands the bonds, the Nova Scotia bonds and the Coal bonds.

Q.—We have got rid of the Mexican, treating this account as dealing only with the Consumers' Gas stock, and with nothing else for the moment, that would leave the transaction in this shape, would it not, at the 31st December, that you owed Osler & Hammond on account of the purchase of that gas stock $27,041.14? A.—I would not like to say we did, because of course they gave us credit for these Nova Scotia Steel bonds and also the Coal bonds.

Q.—They did not at that time? A. —Yes, here is their statement of account.

Q.—What statement of account is that; I am assuming they give us the same statement they gave you? A.—There is the statement of account.

Q.—Where did you see those bonds credited? A.—There.

Q.—No, that is the proceeds of Calgary & Edmonton, that $25,000; but in the account given us those are spoken of as collateral only, those Nova Scotia Coal bonds, and I am trying to get what it was they were held as collateral? A.—They were not collateral, they were in their hands for sale, because they thought they were going to sell them.

Q.—They did sell them but not till the following year? A.—Not till the following year.

Q.—At that time according to their account you seem to owe them on Consumers' Gas $27,041.14? A.—If those figures are correct. I have not gone over those figures or into them.

Q.—At that time did they hand aver to you 500 gas shares out of the 610? A.—I presume they did.

Q.—Holding the other 110 shares undelivered? A.—I presume so. The amount of shares that would be shown in our statement would show how many were held at the time at the close of the account, that is the report to the Government.

Q.—That is what you did hold, 500 shares? A.—Yes.

Q.—You had in fact a right to the other 110 when that set was paid? A. —Yes.

Q.—That did not appear in the Government statement? A.—No.

Q.—Although they had been bought on your account and although you were entitled to have them on payment of that sum of money they did not appear in the Government return? A.—No. We had not them in our possession and we could not put them in there.

Q.—Osler & Hammond still continued to hold those 110 shares for the debt? A.—Yes, I believe they did.

Q.—And they had, according to the account they furnished, as collateral security also the Nova Scotia bonds $9,000 and Dominion Coal bonds $7,-500? A.—That as collateral is merely put in there to save themselves, I presume, that it was not intended as an actual purchase.

Q.—I am not at all saying they would not be quite willing to hold the obligation of your Association, but as a matter of fact the 110 shares of Consumers' Gas at the purchase price was $11,578, it would not be a good security as against a debt of $27,000; whereas if you add $9,000 and $7,500 to it you do get somewhere about the $27,000? A.—That was precisely the way in which it was treated, that they held them.

Q.—You agree with that, that in respect of the debt due on the Consumers' Gas stock of $27,041.14 they were holding as security first 110 shares of gas stock, secondly Nova Scotia Steel and third Dominion Coal? A.—Yes.

Q.—Not only was not the 110 shares of gas shown in your Government return but the other two were not shown, the steel and coal? A.—Because we assumed them as actually sold.

Q.—They had not then been sold? A.—They expected to sell them, but they had not got the purchaser, and they were not sold as a matter of fact.

Q.—The 110 shares of gas were in a somewhat different position, they were not in their hands for sale? A.—No.

Q.—They were in their hands waiting the payment of the debt upon them? A.—Yes.

Q.—Along about that time also, a little before that date, in that very

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

month, indeed in December, Osler & Hammond had bought some Mackay for you, Mackay's preferred? A.—Yes.

Q.—Amounting to $28,033.62? A.—Yes.

Q.—And upon that at the end of the year you had not paid them anything? A.—I do not remember, I am sure, whether we had or not.

Q.—According to their account you do not appear to have paid them anything. I do not see in their account, having exhausted all the other payments and applied them elsewhere, I do not see anything that could be applied upon them, that would be right? A.—I could not say, I should have to refer to the books to see.

Q.—I do not want to give you unnecessary trouble, would you rather I would go through this with Colonel Macdonald? A.—No, I would just as soon, it makes no difference at all. What is it you wish?

Q.—On the 31st December you paid $8,400 on that account as I find? A.—It does not show here.

Q.—And got 150 of these 373 delivered; does the book before you show that? A.—No, this does not. Here is 150 December, 1904, that seems to be taken over then.

Q.—Is there any payment shown? A.—Here is $12,131.40.

Q.—Let me call your attention to this; this is the way they bring it down, December 1st, 1904, to balance against, that is against the company, $55,074.56? A.—Yes.

Q.—And perhaps that means against the securities, 110 gas, 373 Mackay preferred, $9,000 Nova Scotia, and $7,500 Dominion Coal? A.—Yes.

Q.—$55,074.76? A.—Yes, that would be so.

Q.—I call your attention to how that $55,074.76 was arrived at; what is taken of course is that balance $27,041.14 which is due in respect of the Consumers' Gas, and to that is added the $28,033.62 which Osler & Hammond paid for Mackay preferred, and those two sums added together as you will see make the $55,074.76? A.—Yes.

Q.—Let us sum up, because then it goes to the Mackay preferred on the same day; that would indicate, according to their showing in their own account that you owed them $55,074.76, that when that was paid you would be entitled to get 110 gas, 373 Mackay, $9,000 of Nova Scotia and $7,500 of Dominion Coal? A.—That is what appears.

Q.—Then I see that on the same day according to this account you gave them a cheque for $8,400, and took over delivery of 150 shares of the Mackay? A.—I presume so.

Q.—And then I see that on the same day they bought you some other bonds, the Winnipeg Electric Bonds for $5,001, do you see that? A.—It would appear so, I do not remember about it—yes, they purchased; it is in their account, but after all that did not belong to us, we never held these; they went direct to some other party altogether. They went to Mr. Wyld, that was Mr. Wyld's purchase. They put it into our account because we instructed them to buy for us a very considerable sum and it was included in that. This was by tender. These we considered to be very good bonds and instructed them to tender for $50,000, and that included this $5,000 that is included there, and that was all that was, but that never passed into the company at all, nor did the company give its cheque for it.

Q.—I see it enters into this account? A.—Yes, but it is improperly there. That was paid by the purchaser's own cheque, not by the company cheque at all.

Q.—Leaving that Winnipeg Electric out, apart from that altogether you have 150 of your 373 of Mackay's, and they were holding 223 shares? A.—Yes.

Q.—And that 223, like the 110 gas and the Nova Scotia and Dominion Coal did not find its way into the return to the Government? A.—No, because it was not ours.

Q.—It had been purchased for you, you owed this money on account of it; at all events that was the fact; we won't stop to differ about that at present? A.—Yes, but the present is the time to deal with it, and the present is these were not purchased for that year's accounts; we instructed them to purchase so many of these shares, and we simply took them up when we were ready to take them up.

Q.—You had acquired a right and you had paid money for them? A.—Not for these that you refer to.

Q.—You had partly paid, you know? A.—Certainly, but not for those particular shares you now refer to.

Q.—Yes; there was no distinction made in your payments between any one block of a particular stock and any other? A.—I fail to see what point you want to make out of it.

Q.—I am not trying to make out any point, I want to get out the facts? A.

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

—There is the fact, that these were to be taken up when we wanted them to be taken up, and had the money for them; if we had put them in on the one side then we would simply have had to off-set it. I fail to see what difference it makes to the Government statement or any other statement.

Q.—Are the dealings which appear in this account between the 4th January, 1905, and the 13th real dealings, all right? A.—I presume so.

Q.—Apparently they collected coupons on the Nova Scotia Steel and Coal Company amounting to $270? A.—Yes.

Q.—Apparently you gave them that cheque for $20,000 on the 5th January? A.—I presume that is correct.

Q.—On the 7th another cheque for $1,252.50, that however is a cross-entry, because that went to pay Streight for 15 shares of Bank of Commerce? A.—Yes.

Q.—And they collected dividend on the 373 shares of Mackay? A.—Yes.

Q.—Amounting to $373, and on the 12th January you gave them another cheque for $10,000? A.—Apparently.

Q.—There was some interest charged up, and then on the 13th January they carry down a balance of $21,101.08 against 110 gas, 223 Mackay, $9,000 Nova Scotia and $7,500 Dominion Coal? A.—Yes.

Q.—We will leave out the $5,000 of Winnipeg? A.—Yes. They were not holding that 101 shares of gas company, that has been delivered.

Q.—That was delivered on this date? A.—Was delivered before that, I imagine.

Q.—The releases took place in January; however I do not think that is very materal; at all events that $21,101.08 was paid? A.—Yes.

Q.—And it was paid about that time? A.—It is paid along in January apparently.

Q.—I want to ask you what you did with these various securities which would then become released? A.—Took them over.

Q.—The Consumers' Gas went into its appropriate place as a security in your books? A.—Yes.

Q.—The same with the 223 Mackay? A.—Yes.

Q.—What about the Nova Scotia and Dominion Coal, where did those go? A.—They would simply come back into the securities again, they were afterwards sold.

Q.—I am told they came back into a suspense ledger? A.—I do not know personally, but I see the Actuary nods his head that is correct.

Q.—They had not been in the Goverment return at the end of the previous year? A.—No.

Q.—And they did not appear in any subsequent Government return because they were sold during that year 1905? A.—Yes.

Q.—If these were not sold in 1905 is it possible in your view to justify keeping them out of the Goverument return, and if so upon what ground? A.—If we had held them at the end of 1904—I have already explained that we supposed these bonds were actually out of the ownership of the company, in Osler & Hammond's hands—when they came back if we had had them as securities of the company at the close of 1905 they would have gone into the Government report.

Q.—In 1904 as a matter of fact upon what subsequently developed, whether you are aware of it at the time or not, they were not securities which had passed out of your hands, they were securities which had been put in your broker's hands to sell, and which he had not sold? A.—That is true. I cannot give any other explanation than I have already given in regard to it.

Q.—I want to get the position, from every possible standpoint, and if there is a point that can be made in favor of it I want to have that, just as well as a point against it. When you say you were under the impression that they were actually sold do you mean to say you were under the impression that Osler & Hammond prior to the 31st December had actually disposed of them for you? A.—No, they had not; we supposed that they would have sold them and for that reason—we had an unsettled account with Osler & Hammond at the close of that year, into which these securities entered, and they were not put in the report for that year I presume under the supposition that they would be sold, and were actually out of the hands—

Q.—But not under the supposition that they had actually been sold? A.—No, they were not actually sold.

Q.—Supposing they would be sold but kowing they had not actually been sold, do you think still you were justified in keeeping them out of the Government return? A.—I think under the circumstances there is justification for it, because they entered into the unsettled account that was in Osler & Hammond's hands.

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—Of course the Osler & Hammond account upon the omission of this security from the return was also omitted as a liability? A.—Yes.

Q.—So that neither did these securities appear as an asset nor did the debt appear as a liability? A.—Let me admit at once that these things under the circumstances ought to have gone into the Government report, that is all.

Q.—Then I think one of these securities, the Nova Scotia Steel, was sold in August, and the other in May? A.—They were sold, but I could not say when. I think they were sold some of them at different times, not all at once.

Q.—But speaking generally the sales were in May and August, 1905? A. —Very possibly so.

Q.—And they were sold for you by Osler & Hammond? A.—Yes.

Q.—And the proceeds were a little different from the proceeds— A.—There was some little loss on them—

Q.—As they were supposed to be on the 31st December? A.—Yes.

Q.—There is another transaction at the end of the year that I must ask some questions about; there were cross-cheques between your office and Messrs. Osler & Hammond—

MR. NESBITT: Before you go into that I understand Mr. Macdonald is in error; they were not sold through Osler & Hammond.

MR. SHEPLEY: That was my mistake, I should have put it that one of them was released? A.—No, I believe they were sold; I am just reminded now that one of them was sold by the New England—

Q.—The New England Trust Company, or some other company, paid it off or redeemed it? A.—Yes.

Q.—It was redeemed in your hands? A.—Yes.

Q.—The other, however, was sold I think by Osler & Hammond, they were not both redeemed

MR. W. C. MACDONALD: The Nova Scotia Steel shares were sold by Osler & Hammond throughout the year, and the other was redeemed by the New England Trust Company on behalf of the Dominion Coal.

MR. SHEPLEY: I want to ask you about certain cheques which passed between your office and Osler & Hammond on the 31st December, 1904; I am told that those cheques appear in Osler & Hammond's account as cross-entries, "By cheque," "To cheque," without any explanation, but that in your books they indicate that Osler & Hammond had bought the Nova Scotia and the Dominion Coal and the Calgary & Edmonton at a sum of $44,100? A.—Here is a cheque from Osler & Hammond, $44,100, credit this Nova Scotia Steel $9,719.33, and Dominion Coal $8,100.27, and Calgary & Edmonton $26,280.40, making a total of $44,100. There was a cheque given apparently the same day, 31st December to Osler & Hammond for Consumers' Gas $40,368.60, and the Mackay Company $3,731.40, making up a total here of $44,100.

Q.—Under what arrangement were those cheques exchanged? A.—I am unable to say there was any arrangement.

Q.—Did you make the arrangement? A.—I do not know that I did, that I made the arrangement, they gave us the arrangement—I do not think as a matter of fact that I did personally make any arrangement of this kind or arrange for the cheques.

Q.—You do not remember? A.—I am almost positive that I did not.

Q.—Are you aware that in respect of the Calgary & Edmonton what Osler & Hammond did was to sell them on your account? A.—They would give us the cheque at any time for the amount, I remember that, when we put them in their hands for sale they said they were quite willing to give their cheque at any moment for them. In other words I do not know whether Osler & Hammond took them themselves or took them for clients.

Q.—Then you did not understand that they just sold them as your brokers? A.—No.

Q.—In the usual way as brokers? A. —That is all, so far as I know.

Q.—Do you say you do not know? A.—That is I say so far as I know they simply bought them and gave their cheque for them.

Q.—You see of course that the amount named in their cheque, $26,280.40, is not the same amount as the amount which appears in their account as the actual sale figure? A.—No, I do not know what their sale figure is

Q.—We had that before, $25,793.33? A.—The interest would make up those figures I imagine.

Q.—I am told that that is what appears from Osler & Hammond's books, that they simply took this Calgary & Edmonton security and disposed of it as your brokers to a purchaser and accounted to you for the proceeds, less commission? A.—They certainly ac-

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

counted to us for the proceeds less commission, but whether they took them themselves or not I could not say.

Q.—Of course it goes without saying that this cheque was not that accounting, the accounting was as we have seen from the books as they entered the transactions from time to time—the cheque in other words was a mere matter of form and had no substance as applied to the real transaction? A.—I really cannot speak decidedly, I only know the figures as facts that are before us.

Q.—We have gone through the real transaction as carefully as with my imperfect knowledge of them I could? A.—Yes.

Q.—And we have traced the real transaction through the books with real cheques which passed from time to time indicating the transactions which actually took place? A.—Yes.

Q.—These cross-cheques have no place in that history? A.—I think they have; for example we have here the proceeds of the sale of the Calgary & Edmonton bonds; has not that some part in it? That is a bona fide transaction.

Q.—That was a bona fide transaction, and was settled in reality, not by those at all, but by the dealings which we have gone through? A.—All I can say as to this is the proceeds that is entered in here on which they had given the cheque, and they give a cheque apparently for the other amount.

Q.—You gave a cross-cheque? A.—Here is the cheque which had been given to them for the amount—

Q.—I know I am not putting it lucidly to you at all, but I want you to follow me if you can. The transactions we have been going through from the books of Osler & Hammond, supported by your own books, indicate what was really done in connection with all these matters? A.—I think so.

Q.—And in that history which is taken from Osler & Hammond's books there is no mention of these cross-cheques? A.—They must have given their cheque for it.

Q.—They gave that cheque, that is part of the history of it, but that cheque has no place in the historical account of your dealings in these securities? A.—I do not know as to that, I do not know how they treated it. Here is the way in which it was treated by us in the office. (Produces cheque).

Q.—You will observe that that indicates that they were buying out on the 30 December, which is the date of the cheque, the Nova Scotia Steel and Dominion Coal? A.—That is wrong.

Q.—They were not buying them out? A.—No, they did not buy them out.

Q.—Can you tell me whether the crossing of those cheques in that way was made for the purpose of supporting the Government return—I do not want to put it offensively? A.—I do not think it was, I do not see how it could have been at this date.

Q.—You see the result of it was you were able to keep out of the Government return the Nova Scotia and Dominion Coal and Calgary & Edmonton; you were enabled to put into the Government return the Consumers' Gas and Mackay although as a matter of fact you did not discharge your obligation in respect of those until the following January? A.—As a matter of fact these were sold and we had their cheque for it, it was included in their cheque of $44,000.

Q.—No, that was an assumed amount, $26,280, and the real proceeds were $25,793.33? A.—But that probably includes the interest so that so far as this cheque is concerned to the extent of the proceeds of the sale of the Calgary & Edmonton bonds that was a real thing entering into cheque.

Q.—With the interest it is $26,344.64? A.—I take it that shows the interest upon these bonds.

Q.—And excluding interest they were charging it is only $25,431, instead of $25,793. I am not able to see how that $26,280 can be made to tally with the real entries? A.—I cannot tell you, Mr. Shepley, I am only supposing it may include the interest.

Q.—You have already told me you were aware at that time that the Nova Scotia and Dominion Coal had not in fact been sold and it was lying in his hands for sale? A.—I knew about that time, whether on that particular date or some subsequent date, I could not say.

Q.—You were not by receiving that cheque and giving your cross-cheque, intending to allege as against Osler & Hammond that they became the purchaser of those two— A.—We did not allege that.

Q.—You did not intend to when the cheques were passed? A.—No.

Q.—I pass to another matter; have you here the account in connection with your head office building? A.—I do not know.

Q.—Does your company own the land upon which the building was built be-

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

fore you formed the idea of building upon it, or did you buy for that purpose? A.—We only owned part of it; we secured the land for the purpose of building.

Q.—What did you own before you resolved to build, how much of the block, bounded by the four streets—there is the block there from Yonge east to Victoria Street and from Richmond north to Queen? A.—I can hardly give it to you as to just when we resolved to build. We first made an arrangement for a lease of the property on the corner of Yonge Street and Richmond Street, I think some 68 feet some inches on Yonge Street by 110 feet on Richmond Street, and we had intended to build there. Some time afterwards we thought it would be wise to buy the property lying on Victoria Street, and we bought the property, the block extending from a depth from Yonge Street of 110 feet to Victoria Street, and running north to Queen; we bought that shortly afterwards, and before we began to build we were the owners of that block and the lessees of the other.

Q.—You did not acquire any more property upon Yonge Street than the 68 feet? A.—For the building.

Q.—Yes? A.—We subsequently bought north of there.

Q.—That was after you put the building up? A.—Yes.

Q.—I will draw a rough sketch; you leased 68 feet by 110 at the corner? A.—Yes, 68 feet some inches.

Q.—Then you bought afterwards from that out to Victoria Street, running all the way up to Queen? A.—Yes.

Q.—And then you owned the east end of the whole block? A.—Yes.

Q.—That was all you had at the time you built? A.—Yes.

Q.—And you built all the way through to Victoria? A.—Yes.

Q.—From Yonge Street? A.—Yes.

Q.—Then you subsequently acquired lands north of your Yonge Street frontage? A.—Yes.

Q.—How much? A.—I think about 37 feet some inches.

Q.—Immediately adjoining? A.—No.

Q.—At the corner? A.—South of the property occupied by the Imperial Bank.

Q.—Running back? A.—Running back to the 110 feet.

Q.—Speaking generally what have you done by way of the handling of the property other than the property upon which you built? A.—We built on this property.

Q.—Built on the Queen Street front? A.—Yes; well part of this at the corner here. I think some 40 feet was under lease with the right to renew when we purchased.

Q.—That is at the corner of Queen and Victoria? A.—Yes, and that lease was renewed on a valuation, and has been running for I do not know how many years; that comes down to midway.

Q.—Midway to your building? A.—Midway, so many feet.

Q.—And the frontage is on Queen? A.—I think there is forty-four feet on Queen.

Q.—That is under lease? A.—Yes.

Q.—You owning the fee? A.—Yes.

Q.—Then what else? A.—We built stores on Queen.

Q.—Along the whole of the remaining front? A.—Yes, excepting the lane.

Q.—There is the lane immediately in rear of the 110 feet? A.—Yes.

Q.—That lane runs back to your building? A.—Yes, and then runs out to Victoria Street.

Q.—How deep have you built along that? A.—We have built stores, and I could not tell you how deep, and then in the centre was a warehouse which was not built by us, but in which we were interested, we made a loan of a thousand dollars, at least some loan on that building; it was put up by one of the lessees.

Q.—It was put up by the tenant under a building lease? A.—Put up by the tenant to become the property of the company on the payment of one thousand dollars at the end of his lease.

Q.—You have been managing the property by making leases of it I suppose? A.—Yes.

Q.—Then on the Yonge Street front where your building does not occupy that was built on before you took it? A.—Yes.

Q.—And you have been leasing that I suppose? A.—Yes.

Q.—You yourselves constructed the buildings on Queen Street that you speak of? A.—Yes.

Q.—But not the warehouse in the rear? A.—No, it was constructed under our supervision.

Q.—And at your expense? A.—No; we simply made a loan on it to the lessee.

Q.—A loan on his leasehold? A.—No, he wished that additional room,

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

and we agreed with him he was to put that building up——

Q.—I am speaking about the store buildings? A.—The store buildings we simply leased those.

Q.—You constructed them out of the company's funds, and you are leasing the stores to tenants? A.—Yes.

Q.—Has that been a good investment, that building investment? A.—It has been a remarkable one.

Q.—It has been very good? A.—I can say it is more than very good, it is remarkably good.

Q.—You of course have been administering the large office building, that is in two parts? A.—Yes.

Q.—And has that been profitable? A.—I think we may say on the whole it has given us a very fair return.

Q.—About what return has it given you? A.—Well, I cannot speak from memory, but I think the latest return it was giving us clear something about three and a half per cent.

Q.—During the earlier years that would not be so? A.—It was not so, it was not so when it was being built.

Q.—It was an expensive building to commence with? A.—Not for its size, it was inexpensive for its size, and the accommodation for offices.

Q.—How have you kept your account (refers to ledger); this brings down a balance from ledger there $513,000 odd; what are these items? A.—These are various items that went into the charge. (On page 111 of ledger.)

Q.—In process of building? A.—No.

Q.—When was it built? A.—It would be built about 1889, I think, probably; it was started in 1889. I think we took possession of it in the autumn of 1892.

Q.—This ledger only begins in 1889, this cannot be in connection with building? A.—No.

Q.—What are these repairs? A.—No. These are various payments which should be charged to capital account; this is not repairs, repairs always go against income.

Q.—Are they in connection with doing something to the building? A.—Yes.

Q.—For instance, Small is the first, and Boon, $500.—Boon is a building? A.—Yes. There are various items that might be of a permanent character.

Q.—When did you erect the stores on Queen Street—would that appear in this? A.—No, that is head office.

Q.—You have a different account for that, have you? A.—They were different, I think they are together now.

Q.—What was the other account? A.—Real Estate.

Q.—That would be in the real estate ledger? A.—Yes.

Q.—I see there is about $25,000 on that page expended upon the building in some way or other; what would an item like that, Hines $500, be? A.—Hines was the plasterer, if I remember rightly. There have been frequent changes in the building, and repairs; these charges on this particular date would be in reference to those things.

Q.—Where does it go? A.—Forward.

Q.—These items seem to continue? A.—Yes.

Q.—Do I understand in addition to keeping the building in repair all through these years from 1889 to 1902 you were expending these sums of money every year in alterations? A.—Yes, we have spent a great deal. Perhaps you may remember seeing a barricade in front, for example, when we changed the front of the building.

Q.—That was after the grocers went away, and you were turning it into a bank? A.—Yes, and we were changing it and changing the face of it; then we also made other changes, the lane formerly came through from north to south, and we closed up the lane and made an office out of that. Then we have been making changes at different times in the last two or three years, we have been bringing the two ends of the building as much as possible into unison with each other so as to make the one helpful to the other by opening out passages, putting in additional elevating power, and such like.

Q.—All that has gone to capital account; what is this? A.—Real estate income, to which the repairs would be charged.

Q.—There is not a separate account for repairs upon head office? A.—This is merely head office building; there is head office building income account. (Page 121 of ledger.)

Q.—That would be repairs on the debit side? A.—Yes.

Q.—I see an item of general expenses on the credit side, what would be the meaning of that? A.—I do not know, it may have been some overcharge in regard to that, because everything connected with the building, salaries and caretakers and everything of that kind, was charged there.

Q.—These accounts for repairs and for alterations appear to be running side by side? A.—Yes.

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—But you have kept a distinction between repairs which would be chargeable to income and alterations which you charge to capital? A.—Yes.

Q.—Do you remember whether or not there has ever been any writing up or writing down of the head office building account? A.—There has never been any writing up of the head office building account; there was a writing down of the office building account at the close of last year.

Q.—I have a statement before me, speaking of the value of the head office building having been appreciated, and that word has sometimes been used as writing up, was appreciated in 1898 while the building was yet unfinished—do you know anything of that? A.—That does not refer to the building at all; that refers to a valuation of this purchase of the block.

Q.—That is the eastern end of the block? A.—Yes.

Q.—What you paid for that, I suppose, went into this account? A.—It went into some account, it did not go into head office account.

Q.—You kept this separate? A.—Entirely distinct. (Books produced.)

Q.—This is where the account begins? A.—June, 1890. (Head office building account, page 67.)

Q.—What is the other account? A.—This is the ground account.

Q.—What you have carried into head office real estate, $138,517.03, which was the price of the land, did that include the land upon which the head office stands? A.—No, we do not own the land to the west end of it.

Q.—Just what land is covered by the head office building account, is there any land covered by it? A.—No land at all, it is merely the building.

Q.—In order to get at the whole account you have to examine both? A.—Yes.

Q.—Going back to July, 1889, the first entry in the T. W. Anderson account is Richmond and Queen Streets block, R. E. transfer? A.—Real estate transfer, $60,797.42.

Q.—That means what you paid to Anderson? A.—No, that would be the payment made them on account of the purchase.

Q.—That was paid on account of the purchase of the land? A.—Yes.

Q.—There was a building there at the time was there not? A.—There was a little old building at the corner and there was an old building on the corner of Victoria and Queen Street, a small brick building.

Q.—What does this real estate suspense account, December 31st, mean? A.—I presume that must have been a liability for balance of purchase money.

Q.—No, but the balance is on the other side? A.—That suspense was the writng up of the property.

Q.—To get at what the land cost you you would subtract from $138,517 the $41,000? A.—The land cost us $95,000; that I think I am correct in saying from memory.

Q.—Are you able to tell me what was the purpose for which that writing, as it is called, took place? A.—It was simply it was represented that this land was worth more, and I think two valuations were obtained of it, and it was then written up, and with the rider upon it "not for distribution purposes," but simply if it was worth that our assets would get the credit for it, and it would make us appear that much better before the public in our statement, that was all.

Q.—Are the accounts here from which you can verify the writing off that has taken place; for instance I have a statement here in 1901 $4,131.11 was written off? A.—I think these can all be verified, because they all appear in the account; but I may explain what that writing off was; when we took over the leasehold from the Anderson estate it was subject to the rights of a party who had a foundry there, I cannot think of the name at the moment; I think it was $11,000 that was to be given to him, and that was to be written off from time to time, and I think that the entries you have of writing off was the writing off of the purchase that was made of that lease.

Q.—I think there are three items, the first is in 1901 $4,131.11, the second is in 1902 for $11,047.40, and the third in 1905 for $40,367.26? A.—The first you mention I think we thought desirable to write off certain improvements that had entered into this account, of which we have been over; the other was; I thought and recommended the wisdom of writing off $40,000 towards the close of last year.

Q.—As indicating depreciation in value? A.—Quite the opposite, entirely for safety.

Q.—So that the account would not appear larger than was absolutely safe? A.—For example we had a careful valuation made of all that property some few years ago; we employed two architects to value the building,

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Mr. Lennox and Mr. Gray; we employed two well known real estate men to value the land and the leasehold, and I think I am correct in stating that the values which they found of building and land exceeded the amount charged in our books by some sixty-five or sixty-eight thousand dollars. I think that was the result of it, and the writing off latterly is simply a matter of business prudence.

Q.—Does it not come back to what I suggested, that you want to be quite sure that the property is worth the amount at which you are carrying it in your books? A.—Yes.

Q.—You do not want to have any mistake about that? A.—No.

Q.—Practically the property is being carried at the first cost now, with that writing off as against the appreciation of the real estate, taking the property as a whole? A.—I think it is.

Q.—Practically it is being carried at what it has cost you to acquire the property and what it cost you to build upon it? A.—I do not think it is in excess of what it cost.

Q.—And that includes the alterations that has been made from time to time in cost? A.—It does

Q.—This is your Government return, and we have here, "Real estate, $1,217,971.01"? A.—Yes.

Q.—Then under the head of "Income during the year" you have "Amount received for rents, less repairs and taxes. $44,018.63"? A.—Yes.

Q.—And on the other side of the account you seem to have paid out rents amounting to $17,134.25? A.—Of course we charge our own rent, and we pay rents in various towns.

Q.—You charge your own rent: where do you mean? A.—We charge for our own office in the account.

Q.—How much of that $17,000 would that be? A.—$10,000.

Q.—That is, you were charging yourselves with $10,000? A.—Yes, that is a good deal less rent than the storey above pays.

Q.—And the balance is paid in respect of your offices in other places? A.—In London, Hamilton, St. John, Halifax, everywhere, and then of course there is our office in Winnipeg; we include some charge for that.

Q.—Then if you take off the $44,018.63 the $10,000 which you were paying yourselves—— A.—Why should that be taken? If we were renting these premises we would have to pay that, and more, too. We have no right to take that off.

Q.—If you had built a building which was just sufficient for your own offices and no more, you would never think of charging yourselves rent? A.—How do you know?

Q.—I put it to you as a question? A.—Well, it is a question I am unable to answer, because I should not think it a very wise one.

Q.—What a very wise one? A.—The question a very wise one.

Q.—Would you think the answer a very wise one? A.—I do not know whether it is or not.

Q.—What you say is that you are not able to answer it? A.—I am quite able to answer it. There is the fact that the building is put up, and the judgment of those who are responsible for it is responsible for the building, but it is certainly a very unwise thing to take away from the income what is really charged for the rent of the premises occupied by the company itself. I am not quite sure that we could have sat there with comfortable buildings at a rent of $10,000 on this particular site.

Q.—Well, that is not the question exactly, begging your pardon. That is not the question I asked you. I said supposing you had built a head office building sufficiently for your own requirements, and without any intention whatever of using it for any other purpose, of renting it, or doing anything of the sort, except living there and carrying on your business in it, the question I asked you was whether under those circumstances you would think it proper that you should take rent out of one pocket and put it into another, or a sum of money calling it rent? A.—Well, I am not prepared to answer a suppositious question, and that is purely a suppositious question.

Q.—I suppose it is quite a supposable thing that a company may build a head office for its own purposes without any view of having a surplus space to rent? A.—Yes; but the question is, can you do that more cheaply? You would have to pay the interest upon the cost.

Q.—I am not coming to that just now, but I want to get at is this; if an office buiding is erected for the mere purpose of an office for a person building it, a residence, so to speak, would it be sound economics to go through the form of charging the rent to yourself? A.—Certainly.

Q.—Doesn't the fact that you have built the building very largely for

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

office purpose, not for the purpose of making a profit out of it by renting it, enter into your consideration when you charge yourselves with the $10,000 rent? A.—Well, we would have charged more but for that.

Q.—Then it does enter into your consideration? A.—Of course it will. We believe that by a larger building we are reducing our own rent.

Q.—Then, if you will let me carry it hypothetically a further step; if you reduce your total rents by the $10,000 you do not, of course, get 3 per cent. upon your investment? A.—Why, certainly not.

Q.—Are the taxes taken into consideration in fixing this rent? A.—Yes, taxes deducted.

Q.—Before you fix the net rental? A.—Yes, taxes and repairs and other incidentals.

Q.—Less repairs and taxes; yes, that is net? A.—Yes.

Q.—Have you built elsewhere than in Toronto? A.—No. We bought a building. We did not build.

Q.—Where did you buy a building? A.—In Winnipeg.

Q.—Is that a building which has office accommodation in excess of your requirements? A.—Yes.

Q.—And you are renting that, making an income out of that? A.—Yes.

Q.—The rental of that and the cost of that are included in the figures we have just been looking at? A.—Yes.

Q.—Now, to go to an entirely different subject. In connection with any of your investments has your association been presented with bonus stocks at all? A.—No.

Q.—You have never had any dealings in bonus stocks? A.—No. We have had offers of them.

MR. NESBITT: There is a little error there.

WITNESS: Yes, there is one. There is the Toronto Hotel Company you were speaking of this morning. We were presented with a certificate of $1,000 of stocks.

MR. SHEPLEY: Q.—That is in addition to the $10,000 of bonds which you hold? A.—Yes.

Q.—What is your method of dealing with that stock in your books?

MR. NESBITT: That was made as a part of the sale of the bonds. It was not treated by the company as bonus in any sense.

MR. SHEPLEY: I suppose it was just as these transactions usually are; it was hoped to make the bonds more attractive by having some stocks.

MR. NESIBTT: Hardly that; it was very much considered and thought out by the company at the time; that is partially true, and partially it was considered the bonds——

MR. SHEPLEY: I have no objection to my learned friend making the statement, if he knows about it.

MR. NESBITT: That explains it.

WITNESS: There was given to us this certificate for $1,000 stock. I am frank to say I never attached any value to it, and never took any value for it.

MR. SHEPLEY: Q.—And you have never received any dividends in respect of it? A.—No.

Q.—You said this morning that you thought it was five per cent. you had been paid on the bonds: that is a mere matter of detail, but I think they are merely four per cent. bonds? A.—Possibly. I said at the time, or intended to say at the time, I was not sure about it.

JUDGE MacTAVISH: Q.—Can you say at which price they were bought? A.—I think it came to 92.

MR. SHEPLEY: That appears in the statement. We may as well have that exact sum.

Q.—It was bought at 95? A.—Yes, but something went in to decrease that, some $250 or $300. The net was 92 if I remember rightly.

Q.—I do not doubt that at all: it does not appear by this statement, but that is all right? A.—$92.50 is the exact sum.

Q.—You were telling me this morning about your having disposed of the Commercial Cable stock. Have you also disposed of the bonds? A.—Yes.

Q.—You do not hold that or the Mackays: you do not hold any of that at all? A.—Do not hold any of that. I can only take this opportunity to express my regret that we were compelled to part with it: we were getting a good return from it, and it only shows the absurdity of the Dominion law that prevents us holding it.

Q.—What operation, to get rid of the absurdity, would you suggest? Because we are very much concerned in hearing your views about that? A.—My suggestion has been a reasonable extension of the fields for investment of the life companies.

Q.—What would you call a reasonable extension of the fields? A.—I think we ought to be permitted to go into the American market, and

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

buy some of the best American securities, for example, that are quite as good as the best we have. I think we ought to be able to hold the stocks such as we have, such as the C.P.R. stocks, which is one of the most valuable stocks in existence to-day: then we ought also to be able to hold such stocks as the Cable and Mackays stocks, which gave us a good return, and a very secure stock: and other bonds. And my reason for claiming a reasonableness in that is the fact that the Dominion Government has in its keeping, or through trustees, quite a number of millions, perhaps in one company eight or ten millions, of American securities, which are considered good securities for Canadian policies, but not good enough for a Canadian Company to invest in.

Q.—You are speaking now of the American companies? A.—Yes.

Q.—Which are depositing securities with the Dominion Government? A.—Yes. I had never been in favor of a very wide open door for life insurance companies, but following the amendment made in 1899, when there was a change made in the rate of interest, we had a number of representatives, a long discussion with the Deputy Minister of Finance and with the Superintendent of Insurance, with a view of a reasonable extension. At that time I did not fall in with the views of all my brother managers. I and another took rather a more moderate view than some of them: in other words, we did not care to have the field open to the extent that others did, but we had reason to expect that such stocks as these that we had sold would have been permissible.

Q.—Then if you open the door in that way, do you not leave the selecton of the foreign stocks to the judgment and the discretion of the individual manager in each case? A.—No: you leave it to his Board practically, or management, I should have said. For example, take my own Board: it is composed of men who have had 30 and 40 years' experience, many of them, several of them at least, in investments of various kinds. I have had 40 years' experience of business life matters, and I think that we could be trusted with the selection of securities that would be safe to hold. I think it is a very great mistake for a Government to be too paternal, and that is the fault of the present Canadian Government and the Canadian Department of Insurance.

Q.—You say you think the Government, in the first place, and the administration of the Department in the second place, are both too paternal? A.—I think they are too paternal—well I would not like in any remarks I make, to seem to consure the department. My reference is intended only to go this far: that I think anyone in charge of that department ought not to content himself with a mere investigation as to how each company stands on the 31st December, but should think for the growing and development of the various companies, and what is necessary to meet that growth and development, and that is the fault that I have to find with the department: that it is neither sympathetically inclined, nor has it initiated these changes, in keeping pace with the importance of life insurance and the investments which grow out of it.

MR. NESBITT: Q.—You mean by amendments to the law? A.—That is to say, by making suggestions to the Finance Minister as to the wisdom and necessity of granting extensions.

MR. SHEPLEY: Q.—Of alterations to the law you mean? A.—Yes.

Q.—Well, are there any other matters in respect of which you think the administration of the Department might be improved? A.—I do not know that there is.

Q.—You spoke a moment ago of a subject which I would like you to enlarge upon a little. You said you did not think it was proper that an investigation by the Government should be confined to finding out the position of the company on the 31st December in each year. What do you mean by that, or what do you suggest? A.—I mean that he should not consider that the extent of his duty, that he should think for the companies and for the necessities—

Q.—So long as you have a Statute regulating your investments, I suppose it should be his duty to see that you do not sin against the Statute? A.—Precisely, and on the other hand he should see that if in the condition of things that Statute is too narrow, to suggest some widening of it that would meet the circumstances and necessities of the growing business.

Q.—Is he likely to be alive to the crippling effect of any limitation of

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

that sort as the managers themselves would be? A.—I do not think he is likely to be, but I think a more ready ear should be given by him to the representation of managers, and that he should have sufficient influence with the authorities to bring about these necessary changes.

Q.—Do you suggest that representations are made to him to which he does not listen? A.—Oh, I think they have been litstened to but they have not been given effect to.

Q.—Of course you understand the Superintendent himself cannot introduce legislation; that is something that must come from some other sources? A.—Yes. I think the influence of his department should be such that the Finance Minister should rest largely upon it for necessary changes.

Q.—Have you anything to say with regard to the methods adopted when the Government investigation takes place—the methods when he comes into your office, the Government officer, to make the investigation—have you anything to say about his conduct of that? A.—No.

Q.—Have you anything to suggest or any criticism to offer with respect to the conduct of the investigation when the official comes to your office? A.—I have reason to believe it is very thorough.

Q.—What does he do, so far as your observation enables you to speak? A.—Of late years, while he has had the assistance of Mr. Blackadar, Mr. Blackadar visits each office; he takes the returns that are sent in to the Government by the Head Office, and he takes the books and goes through the books to verify the correctness. Then the Superintendent looks after the investments. He will come into our office, for example: he takes the ledgers, the loan ledger, and all the ledgers and other books that he wishes. All the loans are written up in a book in his own possession and sent to him year by year, so that he has a complete record of every loan of every kind, and all he has to do is to check it. He comes in, he checks all these, and he handles each mortgage, and he seems to examine them very thoroughly, the valuation, the loan itself, the mortgage, and sees that everything is right—in fact makes a very thorough examination of it. He handles each bond, and for any stocks that are owned by the company a certificate is produced to him of the holding of that stock on the closing day of the year, and for any loans that may be made the certificate is also given to him. I do not see myself that he could make a more thorough investigation than he does.

Q.—I think in the case of your company from time to time suggestions have been made arising out of the examination, and I refer to that because you ought to have an opportunity of saying what is to be said from your standpoint with regard to it; that is matters which were referred to during the investigation at Ottawa. This, I think, has been sufficiently covered, but we will just look at it? A.—I can only say he has never made any report to me except once.

Q.—On the 2nd of June, 1904, there is a reference in his report to the Nova Scotia steel and the Dominion Coal and also to the C.P.R stock; that we have already dealt with as not being within the scope of investments authorized, also in respect to some of the same class with regard to loans on the security of stocks. Then the Canadian General Electric is spoken of and the loan on your own stock. Then in February, 1905, the Canadian Electric is again referred to and here is something that he speaks of—did you hear of that before—two sums, $1,850 and $600, transferred to cash for advances to employees at the end of the year, and re-transferred to personal accounts after the opening of the new year? A.—No, I never heard of that. I may mention that he has never but on one occasion spoken to me to make a suggestion and that was in regard to our Head Office building; he thought that there should be a substantial amount written off the building. He told me he was going to engage someone to make a valuation, which he did. He made his valuation and wrote to me with a statement regarding it. If it had not been serious I would have smiled over it because of the incompetence of the man that was engaged to make the valuation.

Q.—He was not competent? A.—He was a man that could probably go out and value a farm, but was totally unfit to make a valuation of a building, and that is about the wisdom of it, that led me to suggest to my Board to have competent men make a valuation, and they agreed with it, and these two men were employed, architects were employed that I have already referred to, and the

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

two real estate men in the City of Toronto, to give separate valuations as to the ground and the leasehold, with the result that the value of building and land was placed at some $65,000 by them in our books greater than the amount at which it stood in our books.

Q.—You said the amount placed in your books by them— A.—The amount at which they valued was greater than the amount at the debit of the account; he was advised of that and was perfectly satisfied, and remarked that he did not expect me to be satisfied with the valuation he had made.

Q.—That is the only occasion on which you had any direct communication from him on any subject in the course of his investigation? A.—Yes, and the first intimation was verbally; it was in my own office.

Q.—Is there any other respect in which you have to say anything with regard to the administration of the Department or in regard to the existing law? A.—No, I do not think there is. I would like to see a reasonable extension of the line of investment.

Q.—Then let me come to another question which you must often have considered, I should think. I understood from your actuary on Friday that there has never been practically any voting by your policyholders? A.—Oh, yes, we have voting every year by policyholders, more or less.

Q.—More or less? A.—Yes; there have always been some of them there.

Q.—No general attendance of policyholders, and of course no proxies. A.—No proxies.

Q.—What is your view with regard to the policy or impolicy of having policyholders take part in the management? A.—Well, my answer to that is best expressed by referring to the Act of Incorporation of the company. That Act was framed after a most careful consideration and consulting of the English authorities as to what was best, and with the conclusion that a mixed company, as a rule, afforded better management than that of a purely mutual company. At the same time the mutuality principle was held in view, because it was just a question whether it would be purely mutual or a joint—that is to say, a mixed company; and therefore there was in our original Act of Incorporation what still remains; that a policyholder with participation was entitled to a vote for every $1,000 of insurance; further, to bring it as near mutuality as possible, the measure of profits of this department should not be less than 90 per cent. I may be permitted, for the contract, just to refer to the fact that two companies were operating, mixed companies, in Canada at that time. One of them gave to policyholders 75 per cent. of the profits, and the other gave 80 per cent. Both of these companies have come to the measure of the 90 per cent.

Q.—You say you started with 90 per cent? A.—Yes, and we have ended, for about 20 years, by giving them 95 per cent. Another reason that operated strongly in our minds was the fact then reported to us that a large company, purely mutual company, in the United States, had practically been put out—the management were put out by a designing agent, and it was felt that companies depending on voting by proxies from its policyholders might become very dangerous from that standpoint. I may say that when I was before the Banking and Commerce Committee asking for a charter that very point came up. I cited the statement I have already made, and they saw the point, and they asked the question, why not allow them to vote by proxy? and I sufficiently convinced them that it was safer that they should not vote by proxy; but I may say further in regard to that, that you take the whole vote, take the vote of our shareholders to-day, and I think in Toronto and the neighborhood of Toronto, we have enough policyholders to come in and swamp the entire vote of the shareholders, if they wished to do so.

MR. KENT: It would require 10,000 votes.

WITNESS: You could easily get them.

MR. SHEPLEY: Q.—It would require ten millions of insurance. Is there any active part taken in your meetings by the policyholders who do some? A.—As active as the shareholders do. The fact is that as a rule our meetings have been a kind of happy family.

Q.—Harmonious? A.—Harmonious, and our company is very well represented. Our President, our first Vice-President, our policyholders, and our Board is composed of not less than one-third, and may be one-half, of the policy-holders, and that has always been maintained.

Q.—Then reverting for a moment to what you said a moment ago, it oc-

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

curs to me that this would perhaps be a very proper enquiry to make. You speak of the policyholders who participate being entitled by the terms of the Act to 90 per cent. of the profits earned in respect of their policies. You have since in your management—I do not understand that you have changed your Act at all—but in your management you have since increased that to 95 per cent? A.—The provision in the Act, if you will look at it, is not less than 90 per cent.; that was put in advisedly.

Q.—You are not bound to give them more than the 90 per cent. by any Statute? A.—No.

Q.—You say that you have for some years been giving them in fact 95 per cent? A.—If my memory is correct, I think it goes back to 1888.

Q.—What is the volume, speaking in round figures, of participating insurance in your company?

MR. KENT: I should like to ask a question there before he leaves that subject. I would like to get a statement showing just how the participating policyholders participate. I would like to get two sample policies participating, and a statement by an actuary or other officer showing just how the profits are arrived at. I confess that so far I have not any idea as to the way in which the profits are divided, how the expenses are apportioned.

MR. SHEPLEY: That I was going to take up with the actuary after we have analyzed the profit and loss statement of this company. I do not know that Mr. Macdonald could tell us.

WITNESS: I can produce the figures, but it lies in the actuary's department. The actuary's report will show all that.

MR. KENT: It may become necessary that I should have some question asked from the actuary or Mr. Macdonald in reference to it. The principal objection from participating policyholders is that they do not get what is coming to them.

MR. SHEPLEY: Just for a moment I was trying to get upon a somewhat broader line, but I am not losing sight of that at all, and intended to take that up with the actuary.

Q.—What is the volume of your participating insurance in round figures? A.—I should think from 85 to 90 per cent.

Q.—That is the percentage, but the volume? A.—Well, we have—

MR. NESBITT: Forty-two and a half millions.

MR. SHEPLEY: Q.—Of participating business? A.—No, altogether.

Q.—And you say 85 per cent. of that— A.—From 85 to 90 per cent. would be participating.

Q.—Your participating policyholders, of course, have no part or lot in the profits that arise out of your non-participating policies? A.—No.

Q.—Those belong to the shareholders? A.—Clearly.

Q.—And the shareholders besides have five per cent. of the other profits? A.—Yes.

Q.—Your shareholders have not been getting along very badly? A.—Oh, they are getting a fair return: many of them are getting five per cent. return, and that is all—or a five and a half.

Q.—You mean those who have bought the stock at a large figure? A.—The original holders are all right, but the present stockholders are, many of them, new stockholders.

Q.—It is a fifteen per cent. stock? A.—It is fifteen.

Q.—And it depends on what you have bought it in at how much percentage you receive? A.—Yes.

Q.—You are not complaining on behalf of the shareholders? A.—I am not complaining on behalf of anybody. I am afraid it is you.

Q.—Don't mistake my attitude: I am making no complaint?

MR. KENT: Mr. Macdonald was complaining to the Department.

MR. SHEPLEY: Of the want of latitude in the investment.

WITNESS: I should like to say this about the Department: that I think the Superintendent of Insurance has come in for a large amount of undeserved criticism.

Q.—I think that is all I propose to ask you, Mr. Macdonald? A.—I do not know whether you propose to speak to me about the cost of business.

MR. SHEPLEY: I think it is very likely I should like to ask you about that, but I want to introduce that by an analysis with Colonel Macdonald of the profit and loss business.

By MR. HELLMUTH.

Q.—I understand, Mr. Macdonald, that you are desirous of having the field of investment somewhat widened over what the present Act permits? A.—Yes.

Q.—Could you tell me about what rate of interest could reasonably be

30th day, May 28th, 1906

Confederation Life,
(J. K. Macdonald, Ex'd.)

expected at the present time, with the power of investment as it is under the Act, if you adhere strictly to it? A.—That is impossible to say. It depends on various things. You take good bonds, for example, bonds have been fluctuating at a rate to-day from four to perhaps four and a half.

Q.—Well, at all events, your company is earning something over four per cent. on its invested funds? A.—Yes.

Q.—No doubt about that? A.—No.

Q.—And with the exception of perhaps a few items that have been pointed out, your investments are all, or the bulk of them, within the Act? A.—Yes, we have a large amount of mortgage.

Q.—So that about four and a half per cent. is about the rate that your money earns? A.—Last year we had earned five per cent.

Q.—I understand you to say that you were one of perhaps two or three managers who were not so anxious to have the field widened to the same extent as others—the field of investment? A.—True.

Q.—Is that not correct? A.—Yes.

Q.—May I ask what your attitude was in regard to the other, perhaps important, matter of the legislation of 1899, that of reducing the rate of interest on the reserves? A.—I was opposed to it.

Q.—You were opposed to the— A.—To the drastic change, and I perhaps might explain that it was on my representations to the Banking and Commerce Committee that the arrangement was finally made. As you have opened the question, I think it is only fair that I should give a reason. I stated then to the Banking and Commerce Committee—I was called before that Committee by the wish of the Committee itself. I first appeared there as Vice President of the Life Officers Association: Mr. A. G. Ramsay was President: he was unable to go, and wrote me a note asking me to go there. The matter had been brought before the managers' meeting, and the majority took a certain view, and I was asked to go and present that view, along with other members who were named as a deputation. I may say that I presented that view to the committee, but I took occasion to say that while that was the view taken by the majority of the managers, it was not my view, and that I would ask the indulgence of the committee at a later stage to allow me to present my view.

Q.—Did you present that view at a later stage? A.—I did present that view.

Q.—At a later stage? A.—At a later stage, and with the result that Mr. Fielding, who was Chairman, got up, and stated at the close of my address to the committee, that if I, in conjunction with the Superintendent of Insurance and the Deputy Minister, would put those views into shape, he would be prepared to accept them which led to having the ten years within which to come to the four per cent., and then fifteen years to come to the other.

Q.—The three and a half? A.—Yes, and I may say further that there were very hard feelings expressed by my brother representatives because of the view I had taken, and I may say further, in justification of myself, that the Superntendent of Insurance informed me that he knew there was a cabal to keep me from speaking.

Q.—You got your views expressed, and what is more, you got them carried out to some extent? A.—Yes.

Q.—Were you with Mr. Macaulay at all in this matter? Did you discuss the matter with him? A.—I had an interview with Mr. Macaulay of the Sun; I think we had at least two, if not three, meetings, and when this conclusion was reached it was stated that he was unwilling to concur in that, not wishing any change. I had in my address put the alternative before them; that the other business might be allowed to stand as it had been directed, or if they were to make a change it should be made in such a way to save the old policyholders, because statements that had been made to that committee were misleading: I do not hesitate to say so. Then I saw Mr. Macaulay afterwards with a view to get him to come in with us and accept the thing that had been practically decided.

Q.—Your attitude then was that three and a half for the new business was quite as low as the Government ought to put it—I mean compulsory? A.—Yes.

Q.—And in your own company you have now all the business from 1900 on even a lower rate than three and a half? A.—Yes.

Q.—You have written it down to three? A.—Yes.

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—I do not quite understand why, if you objected to the Govermental change to three and a half, you should yourself voluntarily put your business on a lower rate? A.—There is a seeming inconstitency, but the inconsistency will disappear when you come to know. You have to meet the change that will now take place in three years, in about three years.

Q.—Which is that? A.—The change to the four per cent. all round. That is only another way of making up what the company would be compelled to have in reserve at the end of ten years.

Q.—But is it not raising it up on the class of men who are now insured, so that they will have to pay for the reduction on the other business— A.—No—well, it may do that, and yet there is no reason for it: it is the old policyholders who have a right to complain. The new policyholders that are coming in beginning with 1900 are costing a great deal more than the original policyholders who came in, and therefore if their reserves are put up at three per cent., and in that way to make up what will be required in regard to the policies issued prior to that, it is simply dong a lttle more justice for the old policyholders.

Q.—Still, after all, you make the new policyholder bear part of the burden of the change on the old policyholder on rates? A.—Doubtless, if it is in correspondence with the charge which the new policyholder is making on the profits of the old policyholder.

Q.—Do you mean as to the cost of new business? A.—Yes; the cost of one is an offset against the other.

Q.—The cost of business is constantly increasing instead of decreasing—that is of new business. I see your own cost has gone up from originally 23 and 25 per cent. to 29 per cent.? A.—Yes.

Q.—So that that would imply that the cost of new business was an increasing cost? A.—Yes.

Q.—Might I ask how you propose to stop that? A.—I was quite willing to say something on that matter, but I understood counsel was going to get that letter.

Q.—We will leave it for the actuary? A.—No, it is not a question for the actuary at all, but I understood the counsel would recall him on that subject. I am quite willing to go on with it now.

Q.—We can come back to it? A.—I am quite willing to go on with it.

Q.—You will get the opportunity to go on with it. You say that the company is earning now nearly five per cent., that it has got its reserve on a three per cent. basis for the business since 1900: that it is bringing its other business down; that is to say, will lower to four and a half per cent. Why do you want the right to invest to earn more than four and a half, except to make profits? A.—Well, that is very legitimate.

Q.—Quite so, but that can be the only thing? A.—No. You have safety for your policyholders. There may be the possibility of the lessening of the present opportunities to invest; in other words that under the present law the securities are becoming exhausted, and with the amounts requiring investments from year to year, it is going to be intensified rather than aided.

Q.—But you have no doubt of investments at three and three and a half, and you are getting your reserve down to three; anything above three must be for profits, not for safety? A.—It is both for safety and profits; it is the rule with life companies that it is always safe to use a somewhat lower rate of interest than that which is required by your Government standard.

Q.—But you want to have a good deal higher, because you have a difference now of two per cent. between five and three. As I understand you, last year, with legitimate investments, you were earning three per cent.; all your new business since 1900 was on a three per cent. basis; surely such a large margin as two per cent. is not necessary for profit? A.—Well, profits are a very important thing. Why do men, for example, pay the company an extra premium and say "I want to share in your profits and your surplus."

Q.—I want to get that it is really for the making of profits that you would require to have anything like the discrepancy that at present prevails between your reserve basis and the interest? A.—Oh, no; it is a question of prudence for security purposes as well as the other.

Q.—Let us assume the object is to get insurance as cheaply as possible. The insurer only gets from you a rate which is based now on three per cent. when he comes to pay his premium; is that not so? He gets no higher rate than three per cent. since 1900? A.—Yes, that is so.

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—And on that you are supposed to be able to meet all expenses and pay him back his amount of insurance, or his family at his death; is that not so? A.—Plus his share of surplus.

Q.—I mean the man who does not ask for anything; the man who comes for non-participating policy without any profits at all; then anything that you earn over the three per cent. does him no good: is that not so? Is that not a fact that anything you earn over the three per cent. does him no good: he is safe with three per cent? A.—Yes.

Q.—Then if that is the case, the two per cent. is only for the advantage of those who take policies with what are called profits? A.—Yes.

Q.—That is so? A.—Yes.

Q.—And that leaves a large sum or sums for a greater or shorter period in the hands of the company for investment by them for the earning of profits by way of investment to those who are insured: it is a purely investment business, it is not life insurance? Is it not so? A.—I think it is both.

Q.—You do not lower the premiums to the non-participating policyholders, no matter how much profit you make? A.—Certainly not.

Q.—It remains the same? A.—Yes.

Q.—So that I am right when I ask you this: that all the moneys that you get in the difference between the three and five per cent. earned is a purely investment fund: it is not for life insurance? It has nothing to do with paying the death claims for life insurance? A.—What do you want to draw from that? No man is compelled to take a non-participating policy if he does not want to.

Q.—I only want to get the fact? A.—You are only a theorist.

Q.—I want to ask you if this theory is correct: that money is not there: the interest earned over and above the amount required is not there to provide the fund to pay death claims: it is there to provide profits on moneys that have been paid in for life insurance? A.—He is not required to take the policy.

Q.—Is that not so? A.—It may or it may not be so; for example you may not earn five per cent.

Q.—I am assuming you earn five per cent., as you did, and that you have written your reserve at three, as you did last year on all business from 1900: the difference in that, according to your statement, is not there for the purpose of life payment, of death claims: that is clear, is it? A.—A part of it—the three per cent. would go to the increase of the reserve. It is simply a matter of contract with the company without profits, and whether you make four per cent. or five per cent. it comes to the same thing, and whether you make three or three and a half it is the same thing. A non-participating policy has to take the risk of that. Last year was an exceptional year with us.

Q.—If you could only invest your funds to bring you in three per cent., and you had enough in your loading to cover expenses, you would not fail to meet every obligation for life insurance simply? A.—Well, we might: you have to take management and various things and all that.

Q.—I have assumed you have loaded sufficiently for that? A.—Well, you cannot load sufficiently for expenses.

Q.—That is impossible? A.—It is impossible.

Q.—It is impossible to load sufficiently? A.—Yes.

Q.—I thought the companies tried to do that, to load sufficiently for expenses: don't you try to do that in your company? A.—We have a loading to cover expenses, but it does not cover first expenses.

Q.—I am not talking of first expenses: I am talking about the general loading, the general loading all over the company being sufficient. Take a twenty year policy, don't you load sufficiently for the first year? A.—We hope so, but that would depend on circumstances: for example, the cost of business has gone up so much of late years that it becomes a difficult question, it is one I cannot answer without going into particulars.

Q.—I thought it could be made a scientific theory and proved mathematically without any of these doubtful things? A.—Let me ask you a question the other way? Is it not?

Q.—Apparently not, because you tell me you cannot say whether this is for profit or death claims, and I should have thought it could be done accurately, and you could have divided each part of it and say which is which? A.—So you can.

Q.—Is it not that the two per cent. is not for death claims but purely for profits? A.—It would be for surplus in excess as regards charges against that particular policy most assuredly.

Q.—You have had a saving in your mortality? A.—Yes, usually.

30th day, May 28th, 1906.

Confederation Life,
(J. K. Macdonald, Ex'd.)

Q.—And you try to load sufficiently, not merely to cover first year but load sufficiently to cover all expenses? A.—Well, as a matter of fact the loading does not cover all expenses.

Q.—Is that quite a proper way of doing business, to charge a premium that you know is not sufficient to cover it?

Q.—With a continuing policy that would result all right, but you cannot count that all policies are going to be continuing policies; take your first year for example, the expenses are very much in excess of the loading; if that policy were to be continued on that difference would be met, but it requires some years to do that.

MR. NESBITT. It is all based on scientific calculations that each policy will continue.

MR. HELLMUTH: Q.—The loading is not based, surely, on the calculation that Mr. Nesbitt suggests, that each policy will continue? it must be based on a certain average of policies continuing? A.—It is not based upon the average at all. First of all, the two elements that enter into the premium if the amount that must be contributed each year for the claims that may arise in the year according to the table.

Q.—That is the reserve, is it? A.—No, it is not the reserve; that is the amount that will be necessary, supposing a thousand or ten thousand people enter into an insurance, and we will say 10,000 die the first year, you have not the money in your hand, and that has to be contributed by all the members; that is the cost of carrying the risk, or the contribution that has to be made to the claims arising in the year. Then you have the amount that is to be held in hand at the end of the year as a reserve which has to be accumulated from year to year, these two forming what is known as the net premium; then to that is added an arbitrary loading.

Q.—Why arbitrary? A.—It is arbitrary because there is no scientific basis on which you can put it.

Q.—Cannot a company get, after the experience of hundreds of years now, or a hundred years some companies have been going, cannot they get any basis upon which they can figure an amount that will be sufficient to cover the expenses? A.—You have been speaking, for example, a little while ago of the increase in the expenses that is taking place. I think that the theory of a fixed period—say take 20 years—any theory on which you can base a cost to meet that increasing cost of obtaining business with the existing facts of 20 or 25 years ago, would prove to be very unscientific.

Q.—Then you would say that insurance is increasing in expenses in modern years instead of decreasing? That would be the result? A.—I do not know what you mean by instead of decreasing.

Q.—As a matter of fact it is not decreasing but it is increasing—the cost of insurance? A.—Do you use that term technically?

Q.—No, I am talking of the premiums; you have to pay larger premiums for insurance? A.—Yes.

Q.—And is that the result of the last fifteen or twenty years on this continent that it is more expensive to insure? A.—Yes.

Q.—To the ordinary man than it was? A.—It is more costly for two reasons: a fall in the rate of interest and the cost of obtaining business; these two reasons: for example my company in the earlier years were making actuarial interest of seven per cent. and eight per cent., and down in the neighborhood of six and seven per cent. Last year our company I think crept up from about 4.80, if I remember rightly, or 4.90, crept up a little and got up to a little over five, but then it has been down over that, four to four and a half.

Q.—That is, the rate is fluctuating? A.—Yes.

Q.—But the reserves have never been put on a higher basis than 4½ per cent., even when you were earning seven per cent. your reserves were not at a higher rate than 4½? A.—No.

Q.—It is only the first legislation that has brought the rate below 4½? A.—Yes.

Q.—Prior to that it was steadily at 4½, as I understand it? A.—4½ up to that time.

Q.—Are you personally in favor of the deferred dividend or the annual dividend system? A.—You would have to explain matters, a good deal better before I can answer that. I was asked to address the Canadian Club in Ottawa last December, and I read a paper before that Club in which I expressed myself very distinctly as to the outcome of the deferred dividend plan, but there is a very great deal can be said in favor of the deferred dividend, or

30th day, May 28th, 1906.

accumulated dividend plan, but in its practical working out it has been in my judgment the cause of the extreme cost in obtaining new business, but that is not inherent: it may be incidental, and that incidental element of it has been taken advantage of, especially by the three large American companies who through the fund, as I have before expressed it, assumed no responsibility, they used that fund to an undue extent in trying to see which would be the biggest company in the world, and when they entered the field smaller companies were very helpless, but I shall deal more fully later on with that matter.

(The Commission then adjourned till 10.30 a.m. to-morrow.)

THIRTY-FIRST DAY.

MORNING SESSION.

Toronto, May 29th, 1906.

WM. C. MACDONALD, examination continued.

MR. SHEPLEY: This is the profit and loss statement prepared by the Confederation Life for the year 1905? A.—Yes.

Q.—The first item in it—it is a uniform statement for all the companies as perhaps you are aware—is loading first year's premiums, $73,580; will you tell me how that is arrived at? A.—By taking the difference between the gross premiums earned for the year and the net premiums on the business for the year.

Q.—The net premium I think we have had defined before; but how do you arrive at the amount that you add to the premium for loading, which of course ought to be this when it is taken from the gross premium——

MR. LANGMUIR; First year, of course.

MR. SHEPLEY: Yes? A.—The amount is arrived at by adding a percentage, or a percentage plus a fixed amount, a constant, to the net premium, that is the usual practice, and that was the practice which was adopted in determining the loading in the case of the premiums in the Confederation Life.

Q.—You have given us two methods there, are those methods both in use with respect to different classes of insurance, or how is that? A.—Two methods?

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—You say either by adding a percentage or a percentage plus a constant —is it always a percentage plus a constant? A.—Not always.

Q.—That is what I mean by two methods? A.—On the policies of the early years in the company the loading was a straight percentage on the net premium; in the later years the system has been adopted of a percentage and a constant.

Q.—Then in the years during which you were providing for loading by a percentage was that percentage uniform? A.—For the different classes of policies?

Q.—Yes? A.—No, it varied according to the class of contract.

Q.—Tell us just in outline how that was? A.—On the whole life policies the loading was about thirty per cent.; I do not know upon what table or what exact basis our original rates on the life plan were computed; taking the Hm. table, the 4½ per cent., which was the table we always employed, they gave an approximate loading of thirty per cent., but not exactly thirty; it varies a little, and I was unable to ascertain just the exact mode of computation that had been used.

Q.—It is about thirty per cent., it varies a little, as you say? A.—Yes.

Q.—That would apply down to about what year? A.—That applied to all the policies issued before 1896, those rates remained unchanged.

Q.—With respect to other classes during those years? A.—The limited life plan was, I think, a fixed percentage, varying from twenty to twenty-five per cent. according to the class of policy, not so high a percentage on endowment policies——

Q.—Pause a moment; you had the ten, fifteen and twenty payment life policies? A.—Yes, we had those, not all of them, from the inception of the company.

Q.—When you say they varied from twenty to twenty-five did it vary according to the number of payments during which the policy was to be paid up? A.—Yes, it varied in that way I think.

Q.—Which was the greater? A.—The longer the term the higher the percentage of loading, and on the endowment rate the loading was somewhat lower till, it varied; on the longer term endowments, I think, it was about twenty per cent., and on the shorter term endowment 17½ per cent. —I am speaking now of the endowment policies which were issued—

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—Prior to 1896? A.—And subsequent to 1881. The endowment policies issued prior to that carried a heavier loading, the percentage I do not remember at present.

Q.—Speaking generally during the period down to 1896 the method of arriving at loading was by taking percentages which were higher in the whole life, then lower on the other plans as you lessened the number of payments? A.—Yes; I think I can say without hesitation they were lessened on all the plans; I have not looked at the loadings for some little time, I do not remember the exact scale of loadings.

Q.—Then in 1896 you brought about some alteration in the method of loading? A.—Yes.

Q.—Tell us about that? A.—In 1896 we re-cast our premium rates, and they were computed on the basis of four per cent., the loading determined on being a percentage plus a constant, the percentage varying, I think the constant also varying according to the plan and class.

Q.—Can you give us in an outline just what these percentages were for the different class of insurance, and what the constants were? A.—On the whole life the percentage was twenty-two and a half per cent. plus $2.00; ten life twenty-two and a half per cent. plus $1.00; 15 payment life, 22½ per cent., plus $1.25; 20 life, 22½ per cent plus $1.25.

Q.—That is something I have observed in the cases of other companies, that no distinction was made between 15 and 20 life? A.—Of course the object is to get a percentage or a constant that remains the same for all plans as nearly as possible; it is a little more easy to deal with.

Q.—Is there a difference between participating and non-participating? A.—Oh yes.

Q.—What you have given me I have assumed to be participating? A.—Yes, that is correct.

Q.—Then for non-participating? A.—It was 8 per cent plus $1.00.

Q.—In all? A.—On all life; 10-life was eight per cent.; 15-life 8 per cent. plus 25 cents; 20-life 8 per cent., plus fifty cents.

Q.—That is with respect to life and life payments; then with respect to endowments? A.—17½ per cent., plus $2.00 for all endowments policies continuous premiums, that is for all term endowments with the premiums throughout; and the non-participating, 8 per cent., plus $1.00. I might perhaps be permitted to correct some of those percentages of the early years; I see they vary a little from what I stated from memory. The whole life policies the life I said was approximately thirty per cent., it varies apparently from about thirty to thirty-three and a third. The 10-payment life varies from about 28 to 25 per cent.; then the 15 and the 20-payment life were loaded thirty per cent. Ten-year endowments 16 to 17 per cent.—I do not quite understand that, because I understood it was always a uniform loading, and it appears to be some little variation, I cannot at the moment explain. 15 year endowment 18 to 19 per cent.; 20 year endowment 20 per cent.; 25 endowment 22 per cent.

Q.—Then as to non-participating business during that same period? A.—Whole life 18 to 12½ per cent.

Q.—What regulated the difference there? A.—I cannot tell you, I do not know on what basis those early rates were computed..

Q.—Would the age at the time of the policy have anything to do with that? A.—These computations are made before the policy is issued at all—oh, I see, the age of the insured?

Q.—Yes? A.—It evidently did, it had something to do with it, but I cannot state the reason.

Q.—But there was that variation? A.—Yes, using the Hm. table and four and a half, whether that was the table used in computing those rates I cannot say.

Q.—Can you think of any other reason for differentiating between non-participating policies than differences in the age of the insured? A.—Oh, no, I could not think of any other reason that would actuate them; I am rather under the impression that the table that was used was possibly not the Hm. four and a half, and some other table was employed in computing those rates, and that would explain the variation in the loadings, to some extent, when applied to the Hm. table.

Q.—Since 1896 what table have you been using? A.—We have used the Hm. table throughout for all purposes.

Q.—You have used the Hm. table with what rate? A.—Since 1896, for premium rates?

Q.—Yes? A.—For the policies

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

issued in 1896 to 1899 we used the Hm. table with four per cent.

Q.—And since that? A.—Since 1900 we computed on the same table with three and a half per cent. interest.

Q.—You have raised the premium by making the interest three and a half per cent. instead of four? A.—Yes.

Q.—And therefore raised the percentages? A.—Not necessarily.

Q.—If you compute your premium on the same table at a lower rate of interest you have a higher premium? A.—Yes, that is quite true, but it does not follow you have a higher percentage of loading.

Q.—No, but the same percentage would produce a larger figure? A.—Quite so.

Q.—Following that out still, having regard to the alterations you have made in the method of first computing your natural premium and then computing your loading since 1896, what is the money difference, or is there any money difference, between the result as to loading before 1896 and since, any substantial difference—is the loading higher now than it was up to 1896, as a matter of figures? A.—Generally higher, it may be possible on some plans it is lower, but on the majority of plans the amount added to the net premium for loading is higher than under the old policies.

Q.—Is that because insurance has become more expensive? A.—Partly so.

Q.—And partly what else? A.—On the ground of prudence and safety.

Q.—That is to have margins? A.—To have margins to be able to perhaps make better returns in the form of dividends to policyholders.

Q.—I would have assumed you had margins under the old system as well as under the new? A.—So we had.

Q.—And that those two would perhaps equalize each other, and probably any substantial increase in the loading since 1896 was due to the increased expense of carrying insurance? A.—Partly so, not wholly.

Q.—Those are the two elements, are they? A.—That was the expense, and the ground of prudence.

Q.—And you say perhaps producing better results in the way of dividends or profits? A.—Yes; when I speak of better results in the way of profits I am speaking now of course of participating policies.

Q.—It is not perhaps proper that I should criticize at all, and I do not want to, but I ask you to say whether having regard to the purpose for which a loading is added to a premium, having regard to that purpose, profits ought to enter into it at all, whether it ought not to be strictly confined to expense? A.—I think they should under a participating policy.

Q.—Then you would not agree with the proposition altogether that the loading is solely and only for the purpose of providing for cost? A.—Oh, no.

Q.—You think a loading may be legitimately put on for the purpose of swelling profits? A.—When you issue a man a policy on the participating plan he expects, he is led to believe he will get some return in the shape of profits—I do not admit the term "profits" is technically a proper term to use in connection with life insurance contracts, but at the same time——

Q.—What word would you use instead? A.—It is a return of a surplus or overcharge on the premiums merely; however, the term "profits" has come into general use.

Q.—The real definition of it is that it is a surplus which has been put in hand by reason of the conservative estimate of cost and by reason of certain other savings? A.—Yes.

Q.—Your loading in respect of first year premiums during 1905 was $73,580; that is something which, of course legitimately and properly and in the first instance goes to defray cost of obtaining that year's insurance? A.—Yes, it is to be applied to that purpose.

Q.—You have as your next item what is sometimes called saving in mortality in respect of policies issued in that year, that is—I will just put the item so that it will go upon the record—your net expected death losses in that year in respect of policies issued in that year was $22,884, according to the tables of mortality upon which you were working? A.—Yes, I believe so.

Q.—And the actual death losses net in that year in respect of the same policies was only $9,119? A.—Yes.

Q.—So that there was a saving in mortality in respect of that year policies was only $9,119? A.—Yes.

Q.—That I will have to ask you a little more in detail further on, but just speaking generally to get the principle, that is applicable theoretically upon sound principles to what—where ought that to go? A.—It goes to the credit of the policies—which are you speaking of, the mortality?

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—Yes, the saving in mortality? A.—It may be applied to the credit of the policy.

Q.—It is something in respect of which there has been an advantage accrued to the policyholders? A.—Yes.

Q.—And that advantage (perhaps for the present purpose, it is not very material) if the expense is met from other sources, goes of course to increase what are improperly called the profits? A.—Yes, that may be applied to meet the expenses.

Q.—Assuming the expenses are provided for otherwise? A.—Quite so, that would be the only thing that could be done legitimately.

Q.—It would then increase the surplus for the benefit of the policyholder? A.—Quite so.

Q.—Just one other question about that; would that benefit policyholders other than the policyholders who issued their policies in that year? A.—It depends upon the system adopted of applying it.

Q.—According to your system? A.—According to our system we apply the savings from mortality towards expenses.

Q.—But supposing your expenses were provided for, as I say, from other sources, so that these were available for profit, I want to know whether as a matter of insurance principle that profit belongs solely to the policyholders who issue their policies that year, or whether it belongs generally to policyholders participating? A.—That would be a matter of a good deal of judgment as to the system adopted in applying it. I think where the profits from mortality are applied to the credit of the policies directly instead of under the system we follow it is applied generally to all policies; I think that is the practice that is adopted. I think perhaps it will be found in some companies it varies, that is they may scale it and give a larger percentage to first policies and a smaller percentage to old policies; as to that I cannot say.

Q.—I am quite content with your answer, and that means this, that assuming expenditure to be met from other sources, this would be available not only to the policyholders whose policies came into existence during this year, but to the general body of participating policies? A.—If so applied.

Q.—And I understand you to say that would be sound insurance? A.—Well, of course based on the law of average, which is the whole underlying principles of life insurance, I suppose it would, that is you cannot deal with any one class or itemize your accounts, or adopt too great a measure of refinement; it is an utter impossibility, and I fancy that would be the principles that would have to be adopted, or would be adopted, rather.

Q.—In your company you made use of that saving for the purpose of overcoming the large initial cost? A.—We have not only the large initial first cost——

Q.—I mean when I say initial first cost the first year cost? A.—You are speaking of that particular item there?

Q.—Yes? A.—We do not eliminate that particular item of profit from the other profits arising from that source; we deal with the profit arising from mortality as a whole.

Q.—The theory of this profit and loss account as far as that item is concerned is this, that you take the difference between the expected losses and the actual losses, $13,765, which is added to the loading for the purpose of minimizing the first year expenses? A.—Yes, in that statement that is done.

Q.—And that is economically sound, is it not? A.—Yes, there is nothing unsound in it if you choose to apply it in that way.

Q.—Adding those two sums together you have what is called in the statement total margins on the first year premiums for 1905, $87,345; as against that what were the first year expenses for 1905, that is expenses in respect of new business for that year? A.—They are set there at $220,360.

Q.—Or a deficit after allowing for both these items of $135,015—that seems to be so according to your account: that means, if I understand it, that your initial expenditure—when I say initial expenditure I mean your cost of first year insurance for that year—exceeded the sums which had been provided by way of loading and which arose by reason of a saving in mortality by the sum that has been named, $135,015? A.—Not exactly.

Q.—How would you put it? A.—You have left out an item there which we are entitled to credit there; you have only credited as with in that statement saving of mortality for six months, while you have charged us the expenses for one whole year; this business issued in 1905 was only on the average six months in force, and that is only the mortality for six months, but these are the expenses for the year, this is the total expenses on the basis of course of a revenue statement.

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—If you were making out one for 1904 you would adopt the same plan, would not you? A.—I think we would be entitled very properly to the savings on mortality in 1905 on the business that was carried over into that year from 1904, the first year business.

Q.—That would equalize itself if we had prepared this statement for a sufficient number of years? A.—Quite so, but in preparing the statement now it is in error to that extent and adjustment should be made.

Q.—If it took its place as a statement in a series of statements for ten years running down to this that difficulty would not exist, would it? A.—There is no reason why it could not have been done now for this statement.

Q.—Would you mind answering that, because I do not want to have something which is only partially in regard to that; I may be wrong, would not a series of statements which included this equalize or cast out any error arising by reason of that? A.—Well, no, if we were asked next year, 1906, to prepare a similar statement the same error would obtain in that statement; if we are asked to prepare a statement on that basis.

Q.—Do you say that in your method of averaging you do not recover yourself year after year if you adopt it every year? A.—I will try and make it clear if I can.

Q.—Make is clear with regard to a series of statements? A.—These are the net expected death losses arising in the year 1905, on the business written in that year. The business being written throughout the year, equitable throughout the year, that business would be only on the average six months in force, and that is the expected mortality on that business for six months only; then if you were to carry that business up to its anniversary of its issue in 1906—

Q.—In the middle of 1906? A.—1906, you would find that expected mortality would be probably double that item, and this expected saving would also probably be double; making twice that amount as a saving from mortality.

Q.—Would not it equalize itself, or would it, if you had a series of statements, each one made upon this principle for each ten consecutive years? A.—No, certainly not.

Q.—Would each year be out and never be recovered? A.—That showing would be incorrect for each year.

Q.—And it would not be recovered by reason of the same elements entering into the next year? A.—No. Take 1906, the saving that would arise from this year's business, that is for the year 1905, would not be included at all in these items, it would come into this other item lower down.

Q.—I think now I understand; this item lower down contains all the saving in mortality which is not in this one higher up? A.—Quite so, it is there, but to get the correct savings of mortality for one whole year you have charged that business with one whole year's expense, therefore you ought to give it credit for one whole year's mortality savings; that could have been done, probably arrived at approximately, by taking the savings, as I intimated a moment ago, on the business written in 1904, and which was carried into 1905, the first year business.

Q.—Then let us see, because it seems to me that perhaps we are not very far apart upon our construction of this or upon its effect; if the plan which you speak of were adopted you would have a greater saving in mortality against first year expenses, and a lesser saving of mortality in respect of other business? A.—Quite so.

Q.—In that way the net results at the end would not be affected? A.—Not in the slightest.

Q.—But you would have a larger sum for the purpose of minimizing the first year expense? A.—Yes.

Q.—It would not be fair perhaps to ask you to estimate what difference that would make? A.—I think I can safely say that if we take the 1904 as a basis, that as business came into 1905, it was a smaller business than 1905 business, that our saving was somewhat in excess of that, the percentage of saving was in other words greater.

Q.—It might affect it a few thousand dollars? A.—Quite so; of course we might go on and carry out that business to the end of its own individual year and find we had made a loss on it but not likely.

Q.—I anticipate for a moment, and skip the items to go to the result for the purpose of getting at a comparison; your total profits for the year without deducting these losses, or rather the losses that are shown here, what are called losses, this expense and so on, was $325,238, according to this statement? A.—Yes.

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—And in some way or other the business had to bear—the business which earned that profit in the year had to bear $125,015 in respect of excess of cost of first year insurance over what was provided by the ordinary means for it? A.—No, I do not quite admit the correctness of these figures.

Q.—With the exception of what we have been speaking about, the few thousand dollars? A.—Yes, I think that credit should be given to that first year business for the profits from surrenders and lapses. I think largely that item should belong to that.

Q.—Will you tell me please whether in respect of surrendered or lapsed policies in 1905, written in 1905 and surrendered or lapsed in 1905, there would be any profit? A.—Not from them, I say it is legitimate to credit that business with a portion of that profit. I admit they do not arise directly from that business, but it is profit that may be used and applied in whatever way it may be deemed desirable; I do not hold that it is directly a profit arising from the business of that year, although the charge that is exacted when a policyholder surrenders or when a policy lapses is regarded as a charge for the purpose of placing another policy on the books; it is very generally regarded as properly applicable in that way.

Q.—We will pass on to the other items; in respect of renewal premiums paid during 1905, the company received $216,608, that seems to be the statement? A.—Yes.

Q.—And from that is deducted all other expenses except taxes, repairs and investment expenses, that would be all expenses in connection with the operations of the company except first years expenses and these exceptions, taxes, repairs and investment expenses? A.—Yes.

Q.—Those expenses are $143,445, so that in respect of renewal premiums after deducting those expenses you have a surplus of $731,163? A.—Yes; it occurs to me that I perhaps should just make an explanation here in case of any misapprehension; in arriving at these loadings or margins we are not using the net premium tables on which the premiums were originally computed; we are using premiums computed on the basis upon which we reserve, which differs from the basis in some instances at least.

Q.—That will make some difference? A.—It would make quite a substantial difference.

Q.—In which direction, will it make your profits greater? A.—If we used the tables upon which the premiums were computed this item would be larger.

Q.—That is the profit item? A.—Yes, and this would be smaller.

Q.—The item $73,163 under the head of profit would be larger, and that of $135,015 under the head of loss would be smaller? A.—Yes.

Q.—Next we come to the saving or mortality in 1905 otherwise than in respect of policies issued in that year; is that open to the same criticism you made upon the savings of mortality in the case of first year? A.—Oh no, because that does not profess to be other than what it is; I do not say it is this either, but in the shape you are putting the question to me I could not admit quite the correctness of those figures.

Q.—You are quite right; the net expected death losses in respect of these policies was $379,539, and the actual $246,942, or a saving in mortality otherwise than in respect of first year business of $132,597? A.—Yes.

Q.—Well, then you had a loss in mortality in respect of annuities of $9,217? A.—We had.

Q.—Before passing on to the next item let us just recapitulate for a moment. Can you give me off hand a computation as to how much per thousand that expense is for the first year's insurance? How much per thousand of insurance written? A.—I think I can. It would be on the basis of about 37. I think so.

Q.—Our people made it about 40. A.—They have taken off the cancellations. That would be right.

Q.—Taking off cancellations it would be about $40 per 1,000 of the insurance written. Then, Colonel Macdonald, what sum per thousand do you assume when you are computing dividends or computing an apportionment of profits or surplus money to participating policyholders? A.—I do not assume any sum. All the savings from mortality are now applied to the expense generally and we make a charge as a fixed charge per thousand against first year business to cover certain expenses and then the balance of the expenses are assessed.

Q.—Am I wrong in saying that in figuring your dividends for initial cost

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

you allow 10 dollars per thousand? A.—We allow that as cost, yes.

Q.—That is what you allow as cost? A.—Yes, that is part of what we allow. There is another cost as well.

Q.—Certainly, but when you are figuring initial cost there is $10 per 1,000? A.—Yes.

Q.—Does that mean then that in respect of an item of $40 which you had to pay out, you only say to the participating policyholder, we are going to charge you $10? A.—Oh no, because we have charged him with the mortality savings, we have applied them first to the expenses. The mortality savings arise largely in the early years of the business.

Q.—But they, of course, do not make the difference between 10 and 40? A.—They make a considerable portion of it.

Q.—Having regard to all the items that enter into this computation of apportionable surplus, is it safe to fix upon $10 per 1,000 as initial cost in view of the fact that it is really 40? A.—It is safe, because the other provisions for expense fully provide for all the expenses that are incurred.

Q.—That is for subsequent expenses? A.—Yes.

Q.—But I am speaking solely now of first year expenses? A.—Oh well, if you are going to eliminate the first year business from the other business and deal with that solely, of course you would have to charge a higher rate.

Q.—What you say is that there is an allowance in respect of second, third, fourth and fifth year costs, which equalizes? A.—Yes.

Q.—In one of your answers to the questions which I have asked, you have put this: "The cost of obtaining business may be safely reckoned as not less than the amount of the entire first year's premium?" A.—Yes, that is approximately correct, I find that our business last year was about 90 per cent. I think it was 90. When I spoke of costs there I spoke of the mortality charge as well as the expense charge, when I spoke of costs of the business in that statement, I think. That is my recollection.

Q.—I thought not. Perhaps I have misread you. I will read the whole sentence: "The cost of obtaining business may be safely reckoned as not less than the amount of the entire first year's premium. This is apart from any charge for mortality for the year." Then to follow that, you say: "If deduction is made, say of 15 per cent. for expenses in connection with renewal premiums, plus a charge of 2/3rds of one per cent. of the same share for cost of mortality, which would be moderate, it will be observed that the profit arising from lapses is comparatively trifling?" A.—Yes, I have said that. Of course those figures are only round figures. I did not go into any computations at the time in regard to it. Probably 2/3rds of one per cent. for mortality might be a little high. I don't know that it would, though.

Q.—Then your savings in mortality are very satisfactory are they not? A.—They always have been.

Q.—And they are in this statement? A.—Quite so.

Q.—We make them up at about 66 per cent. Can you verify that? A.—The cost would be about 66 per cent. The saving would be about one-third wouldn't it?

Q.—Yes, that is right? A.—The saving would be the difference between that and 100.

Q.—One question about the loss in respect of annuity claims between expected maturing claims and actual maturing claims. That is a loss of $9,217. Are there as against that any interest profits on the sums paid in to purchase the annuities? A.—I don't quite understand your question.

Q.—In your interest, dividends and rents, there is interest upon sums which have been paid to you by way of purchase of annuities? A.—Oh yes, the annuities; that is the actual loss upon that for the year.

Q.—That is the actual loss as between expectant annuity claims and actual? A.—Yes, in that year.

Q.—Then appropriately the earnings of the purchase moneys of these annuities would be applicable pro tanto to wipe that out? A.—Yes.

Q.—Now we come to the income apart from premiums. "Interests, dividends and rents received during 1905 $579,219." That is less "taxes, repairs and investment expenses for the year $97,903," and less "required to make good the reserve in 1905 $421,441." Or a total to be deducted from your interest of $519,344, leaving a net profit after putting up the reserve of $59,875? A.—Yes.

Q.—That is the net profit in respect of that item. Now what rate of interest does that represent upon the amount of your investments or can you tell that off hand? A.—That is this $59,875?

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—Yes? A.—6/10ths of one per cent., I suppose. It must be about that. We have about 10 millions of assets.

Q.—And it is about 12 per cent. left of the total interest, dividends and rents received? A.—Yes, of course that item is swelled by this item here of $64,000 which is really, when you are speaking of rents and interest and revenue from that source, I don't think it should be included. It is taxes and repairs, which I think should be eliminated altogether from that item.

Q.—Now in connection with your estimates, what rate of interest have you used? A.—The original estimates which were prepared some 15 or 16 years ago, the rate of interest used was the rate we were earning at that time; about 6 per cent.

Q.—Then the more recent years? A.—In the recent estimates there was reallly no interest rate taken into consideration. We took in the last estimates that were issued, the results on policies that were maturing and made our computations from them as closely as we could as to what the results might be upon the new policies.

Q.—In making your computation of profits I see that you have taken a rate of interest of 4.7? A.—Yes.

Q.—Do you earn that? A.—We do.

Q.—You think you earn that? A.—Yes.

Q.—Coming to the next item, have you prepared a schedule of profits from savings? A.—Yes, Mr. Dawson has that.

Q.—That item as I understand it is where a security has matured or where you have sold it and either realized a profit over original cost on the realization, or have sold at a profit? A.—Yes, it may include some other items written up. I do not know. It might include an appreciation in values. I cannot answer definitely. I have not the statement before me.

Q.—I think we have that in another writing, No. 7. Increase in Market Values? A.—No, that would be different.

Q.—Then that item, profit from sales or maturity as per schedule, is $119,320 and then the loss from sales on maturity as per schedule $84,536. That seems large? A.—Yes, but that includes the item referred to yesterday, that we wrote off our head office building last year $40,000 odd.

Q.—That gives you a gain of $34,784 in respect of that class of writing. Then "Increase of Market Values as per schedule $52,164?" A.—That is the difference between the increase and the decrease in the market value of securities during the year as computed at December 31st, compared with December 31st of the previous year.

Q.—That is, you have certain securities which have increased in market value between December and December to the extent of $52,164? A.—Yes, on that.

Q.—And on the other hand you have securities which have decreased in market value during the same period by $45,989? Principally what is that decrease in market value? A.—Debentures probably. I valued some of our bonds and debentures on a more stringent basis this year than fomerly. I may say that while that item, the difference between the market and the cost value of securities, appears in our statements, we do not take credit for it at all as a divisable item of surplus, and we have not, perhaps, been valuing those securities as closely as we would have done under other circumstances. Sometimes securities are a little undervalued.

Q.—That leaves you a net profit on increase of market values of $6,175? A.—Yes.

Q.—Then the next item is reserves released by surrender and lapse $98,259? A.—Yes.

Q.—That is reserves in respect of all surrenders and all lapses? A.—Quite so.

Q.—Then against that there are surrender values to the amount of $71,615? A.—Yes.

Q.—Leaving a surplus upon that of $18,644? A.—Yes.

Q.—Are the surrender values likely, in consequence of what you told me the other day, to grow so that that item will need readjustment say next year or this year? A.—No not when those old items are dealt with and wiped off.

Q.—Have they all been provided for in this? A.—We have an amount in our reserves which we can apply and propose to apply to meet that liability.

Q.—And which is not included in the released reserves here? A.—No.

Q.—Then the last item is "All other profits as per schedule and all other losses as per schedule $5,000?" A.—That is an amount, a little extra reserve we put up on a certain form of policies, such as paid up policies and bonus additions; I always deem it advisable to value them a little above the standard table, and on certain other forms of policy we put up a little more than the tabular reserve. For

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

example where we have a certain class of policy for a broken amount, say $740; we will value that at $750 for convenience sake. Besides that a general principle can be observed which I fancy is a customary one, which is to make your reserves a little more rather than err the other way.

Q.—That is an estimated sum then? A.—An estimated sum. When getting these figures together, you cannot get all these figures accurately, they must be more or less approximate. I know that sum is approximately correct, but it might be found on an accurate computation to be $1,000 wrong, or something of that kind.

Q.—Then that, of course, you put under the head of loss because that is withdrawn from the profits of the year? A.—Yes, it has to be provided for in that way.

Q.—That brings us to the total profits, $325,338. Total losses $149,232, and net profit $176,206. That is after providing for all the expenditures of the company and for putting up the reserve? A.—Yes.

JUDGE MacTAVISH: There is a mistake there, Mr. Shepley, the '2' should be '0'.

MR. SHEPLEY: Yes, $176,006? A. —Yes, it should be that. I remember that myself in the original draft.

Q.—Then you have analysed the expense of first year insurance for us and the commissions on $168,659? A. —That includes commissions and salaries paid to agents and all charges for obtaining business. I could not itemize that and put commissions separate from salaries and other expenses.

Q.—Medical examination fees and inspections $13,672. All other expenses of the new business for 1905 $40,029. That is a very considerable item; what is that? A.—That is the general expenses.

Q.—Is it explicable at all? A.—Yes I could get how I arrived at the item from different sources, but I could not give it to you just at the moment. It is the balance of the general expenses which is assessed against the first year and renewal business on a more or less arbitrary basis, because you cannot determine and say how much of this expense is properly chargeable to first year business and how much to renewal. You cannot say how much of office salaries and rents and so forth can be charged to first year business and to renewal business on any absolutely correct basis? A.—It is a mere matter of judgment.

Q.—One other comparison I would like to make before leaving this. The excess of cost of first year business $135,015, will of itself, if so applied, absorb practically the whole of your salvage on mortality in all years? A. —Yes, I think so, practically.

Q.—Does that mean that during 1905—whatever may be the restoration in the future—all policyholders gave up for the benefit of the policyholders who came into existence in 1905, their right to the mortality salvage? A.—No.

Q.—What benefit do they get from it? A.—There is no expense in computing the dividends charged against those old policyholders except the fair cost of the expense of collection of premiums. There are other expenses that must be charged against the business, and therefore, in assessing those expenses it comes out of the mortality savings to which they might perhaps be entitled under that. Policies that are in force for 10 years will show a very small mortality saving. There will be a considerable saving in the first 5 years; perhaps some saving in the 2nd decade of the policy's existence, but after that the mortality saving must be comparatively small and they run out.

Q.—They run out, of course, but I am speaking of the temporary period? A.—Therefore there is no injustice done to those old policyholders in applying savings from mortality in that way. At least I think not necessarily, but if there were a savings from mortality it is not more than sufficient to cover the general expenses in connection with the managemet of that business.

Q.—I prefaced my question by saying, leave out of consideration anything that may be restored in the future, that may be equalized, any equilibrium that may be restored in the future and deal with the question for the moment, if you are dividing profits among policyholders and taking into consideration this year's profit and loss statement, do the policyholders or do they not suffer by reason of this excess of expenditure, this first year's business excess? A.—The old policyholders?

Q.—Yes? A.—No.

Q.—If the first year's business of 1905 had carried itself, that is if the premiums had recouped the expenses and had also provided for the reserves, there would have been so much more to divide? A.—There would have been so much more to divide I sup-

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

pose, amongst the new policyholders. They would be clearly entitled upon those assumptions to the entire mortality savings.

Q.—MR. LANGMUIR: Pausing at that point, what was the aggregate amount of policies written that involved an expenditure in commission of $168,659? A.—6 millions of business. And 2 thousand, to be accurate. That is the aggregate business written in 1905.

Q.—And that involved an expenditure for commissions of $168,000? A.—It involved an expenditure of more than that?

Q.—That was commissions? A.—Oh commissions alone, yes, sir.

MR. SHEPLEY: Has there been an alteration in the history of your company, of its methods with respect to agents' remuneration? Commence with 1891, for instance; how were you dealing with it then? A.—I cannot say that there has been an alteration in the methods. I think the methods are pretty much the same to-day as they were then.

Q.—Take renewal commissions, for instance; have not renewal commissions run down? A.—Yes, I see what you mean. I thought you were speaking of the first year business and the means of securing business.

Q.—No, I should have said we were leaving that question? A.—In those earlier days our policy, so far as the renewal business was concerned, was to pay commissions to agents. That is they had a renewal interest in the business.

Q.—And in those earlier days your agents' renewal commissions exceeded the first year's commission that they received, I don't mean in rate but in volume? A.—Perhaps they did. I cannot say as to that.

Q.—This is a record which has been compiled and this would seem to be the way the commissions ran in 1891. 12 thousand dollars first year commission. I leave the odd hundreds out. $30,000 renewal. In 1892 $12,000 first year commission; $32,000 renewal. In 1893, $13,000 first year commission; $32,000 renewal. In 1894, $15,000 first year commission; $37,000 renewal. In 1895, $18,000 first year commission; $35,000 renewal. In 1896, $22,000 first year commission; $34,000 renewal. From that on you observe, that the commissions rise on the first year and they fall off on second year until you get a reversal of the position in 1903, when the first year commissions are $43,000, while the second year commissions or renewal commissions are only $36,000. And in 1905 the first year commissions have risen to $89,000 while the renewal commissions have fallen to $28,000? A.—I observe that.

Q.—Similarly with regard to salaries and expenses; those have run up from $32,000 and $12,000 respectively. In 1891 to $62,000, and $25,000 in 1905; expense allowances to superintendents and agents, that is the expense of obtaining and retaining insurance. You are not familiar with these figures? A.—I do not recognise them in that form, but I have no doubt they are correct. Of course I I would have to verify them and look them over before I could pass an opinion on them at all.

Q.—In the earlier years your method was to pay a small salary to a soliciting agent or a small first year commission and a permanent renewal commission? A.—You are speaking now, when you say earlier years, of 1891 I take it?

Q.—Yes? A.—In 1891 we had agents on salary, securing business. Probably not to the same extent as to-day; I am not sure as to that. But we had, of course, a great many agents on salary and smaller first year commission and an interest in renewals.

Q.—Has the tendency been to increase the commission in respect of first year business and to decrease them in respect of renewal business? A.—That has been our tendency in our company, certainly.

Q.—That has been generally the tendency amongst insurance companies in this country? A.—I think it has been. Well, no, I will not say that. I would say the tendency has been to increase the commissions in obtaining first year business, but I do not know that the policy of other companies has been to dispense with the payment of renewals at all. I cannot answer that. I am not aware of any company at the moment that has, in Canada I am speaking of.

Q.—That has altogether dispensed with them, but the renewal commissions have been lessened, that is where retrenchment has taken place? A.—In some companies.

Q.—In your company? A.—Oh, in our company certainly.

Q.—In your company that is where it has taken place? A.—Yes.

Q.—And the increased expenditure is attributable to first year business? A.—Well, partly so at any rate. I won't say that it is altogether.

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—The increased ratio of expenditure to business? A.—Yes. because our first year business has increased.

Q.—To what do you attribute this large increase in first year commissions and first year expenses? A.—To a greater difficulty in securing business, due to the keen competition; the cost of living in recent years has greatly increased, and not only have agents to receive larger salaries but in all branches of the business expenses have increased, due of course to that cause. The expenses of the companies have increased—I am speaking generally—due to another cause which I think might be mentioned; the increased taxation which is imposed upon the companies to-day.

Q.—I was only for the moment asking about the increase in the rates of commission upon first year business. That is a substantial increase, of course? A.—Yes, the rates have substantially increased.

Q.—And that, I understand you to say, is at all events, partially, perhaps substantially due to keen competition? A.—Keen competition and increased cost of living.

Q.—The desire to secure business in the midst of continual competition? A.—Well, we have got to secure it; we cannot close our doors.

Q.—Are you aware to what extent, if at all, rebates are allowed in the case of your agents? A.—Well, I cannot speak from personal knowledge. I hear a good deal about the subject. I believe there has been in recent years a good deal of rebating done, I am sorry to say.

Q.—In connection with your company's business, I mean? A.—I hope there has been very little. I do not believe that all our agents are virtuous.

Q.—Have you rules against it? A.—We have had rules.

Q.—Were they more honored in the breach than in the observance? A.—I cannot say that; I cannot speak from personal knowledge. I know we have had rules against it. We fought against it and did all we could to stop it, but when an agent is paid by commission and he is in competition for a risk and he is likely to lose that, he is apt to regard it that half a loaf is better than no bread and he will throw off part of his commission and put the balance in his pocket and secure the risk probably, irrespective of what the direction of the management may be.

Q.—Do you go so far as to say that you cannot cure the practice by laying down rules and attempting to enforce them? A.—We cannot of ourselves cure that, if our agents are remunerated by commission. It could only be done provided there was unanimity of action on the part of all the companies. Now I can speak from personal knowledge that so far as the majority of the Canadian companies are concerned, I believe that they are and have been willing—the management of the Canadian companies I should say—to co-operate to that end, but it is absolutely impossible for them to control rebating when so many companies, Canadian companies some of them, and British—I won't say so much the British companies—and American companies are unwilling to join with them in putting an end to that practice. I firmly believe that if the management of all the companies, Canadian, British and American, could act with unanimity that the practice could be stopped, but in the absence of unanimity of action, I do not believe it can be stopped by the management of the company.

Q.—Is there any economic objection to the practice of rebating besides the increase in the expense? A.—It is wrong in that it gives a preference to one man over another.

Q.—That is two men of the same age taking the same class of insurance in the same company, ought to pay the same premium? A.—Yes. I would like to add just a remark I was going to a moment ago; in so far as our own company is concerned I do not want to claim that we are any more virtuous than others, but I do think that there has perhaps been less rebating on the part of our agents than on the part of others for the reason that many of our agents are remunerated by salary and not by commission. I do not know what proportion but I should fancy half or two-thirds of our business is obtained through salaried men, and the man who is on salary has not the facility or temptation to rebate that the man has who is working on commission.

Q.—Do you find that working on salary has any tendency to lessen the effects of your agents? A.—No.

Q.—Are they just as vigorous in their efforts to get insurance? A.—Yes, because if they are not they know they cannot earn a larger salary. They are all anxious to increase their income and I believe the agents we have on salary—some of whom we have had for many years—are more faithful and zea-

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

lous in the company's interest than the man who is remunerated by commission unless he has a contract which is a very profitable one to him. The man who is working on salary has not the same temptation or facility to rebate as the man who is working on commission.

Q.—Then from your experience in the business of insurance, Colonel Macdonald, do you think a prohibitive law with respect to rebates would be workable? A.—I cannot answer that question. Prohibitive laws have been obtained in the United States and I have heard contradictory reports about them. Some say that they are effective, some say that they are not. We had a prohibitive law here some years ago, in Ontario, but it was a very partial measure of prohibition and was quite ineffective. It is a question I could not undertake to answer.

Q.—Speaking generally your trend is towards the salaried agent as far as possible? A.—Yes, we have always employed salaried men and we have no reason to change our views in regard to the desirability of securing business in that way. Perhaps if we were doing business over a very extended area in different countries it might be a little more difficult to operate the salaried basis of remuneration.

Q.—Now a question or two with regard to your method of computing or estimating profits. I think the first book containing estimates which you have furnished to us is dated 1893? A.—Yes. There was a book issued in 1890 and I told Mr. Dawson the figures were the same but I find there were some little differences. They are substantially the same. I think the items of estimated cash profits are the same. The differences are minor ones.

Q.—Is it possible to produce the earlier book? A.—Yes, I have it here. I intended to give it to Mr. Dawson to-day but I forgot it this morning. In giving that book, I gave the first book that was issued after 1891.

Q.—Had you no book of estimates prior to 1890? A.—None whatever. I can say we had no book of estimates.

Q.—You furnished none of your agents with estimates in some other form than by books? A.—No.

Q.—Were there slips or pamphlets or matter of that sort furnished to agents containing estimates of results of your participating policies? A.—Deferred dividend policies, or accumulation policies, as we call them?

Q.—Yes? A.—I looked into that matter. Mr. Dawson spoke to me about it yesterday and I tried to find the history of the formation of that plan and I can produce here the only circulars I can find. There were no estimates issued by the company in connection with the plan so far as I know. The manager informs me that that is correct. That is merely a circular announcing the plan and a leaflet explaining it.

Q.—These you say do not contain any estimates of results? A.—No, they do not. In fact quite the reverse; the question of giving estimates is rather disclaimed.

Q.—Perhaps you will let us have those? I will return them? A.—Thank you, they are the only copies we have and I would like to have those or copies of them for reference.

Q.—If I use them at all I will use copies so that you shall have these back? A.—As long as I get them back later on I do not mind when it is.

Q.—Before going more into detail on the question of estimates I want to ask you about your general methods. You have no distribution of profits in any shape at more frequent intervals than 5 years? A.—No.

Q.—You have distributions of profits at 5 year periods? A.—To policies according to years to issue.

Q.—Under certain policies which you issue? A.—Yes.

Q.—You have that plan and in respect to those policies you have different methods of giving these profits to your policyholders; you give them in the form of bonus additions to the policy or in the form of cash, do you? A.—Yes.

Q.—Now when you are computing, say this year in respect of the preceding 5 years in policies of that sort, what method speaking generally do you adopt, in the first place as to grouping policies what do you do, have you it grouped at all? A.—I don't hardly understand your question.

Q.—Supposing during the year 1906 the 5 year period, the quinquennial period has arrived with respect to a thousand policies? A.—We compute the dividends for all policies, those issued in 1901, 1896 and so on and irrespective of their plan or class, and the dividends allocated to the quinquennial policies are also applicable to those on the deferred dividend plans.

Q.—Do you have rest periods, 5 year periods, as to the deferred dividend plan? In other words do you

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

take 5 year periods in the middle of say a 20 year deferred dividend policy? A.—We have no middle year periods. The quinquennial periods are governed by the date of issue of the policy, as for example all policies issued in 1901, whether on the quinquennial plan or the accumulation plan, would be credited with 5 years profits in 1906.

Q.—That is what I meant when I said you had the 5 year rest periods so to speak for your accumulation dividends. Then you do at the end of 5, 10 or 15 years from the issue of a particular policy, compute the profits? A.—Yes, and apportion the profits to the policies. Tentatively, of course.

Q.—In apportioning the profits to the policies what plan do you adopt, what do you include as profits? A.—All the surplus; all the assets over liabilities.

Q.—Do you include profits made on the turning over of securities? A.—Yes, we would.

Q.—You do not make any distinction in investment between the funds received from one particular set of policyholders and the funds received from another? A.—No, we do not.

Q.—You take a general account of all the profits you have made, the financial advance you have made? A.—Yes. I might just say that the reason that we do that, I think that if we kept separate accounts of the different classes of policies, that where you have to make a distinction between a quinquennial and an accumulation policy that probably as many of the charges of expenses and mode of assessing expenses and charges have to be adopted by methods more or less arbitrary, it is a matter of judgment, that perhaps inequalities will arise as between the different classes of policies. I believe that dealing with them as we do we are better able to avoid injustice as between one class of policies as compared with the other.

MR. NESBITT: You mean you are less liable to cause injustice?

MR. SHEPLEY: When you ascertain the advance your company has made in resources at the end of a 5 year period, what do you do with regard to non-participating policies? A.—When the surplus for the year is ascertained, the profits earned from the non-participating branch of the business are computed on the basis determined a good many years ago and set apart to the credit of the shareholders' account.

Q.—What is the basis determined a good many years ago? A.—The basis was, in the first place the interest earned upon the capital stock itself is credited to the shareholders' account, that is the earnings of that fund, the capital stock, and any surplus accumulated.

Q.—The interest, which you fix at? A.—What we earned upon our investments.

Q.—Do you do a sum in proportion, as the capital stock in the company is to the total amount invested, so is the profit apportionable to the stock to the total profit? A.—The rate of interest earned upon the investments for the year is ascertained and, of course, the interest earned upon the capital stock at that rate is set apart to the credit of the shareholders' account.

Q.—You set apart the interest earned at the rate that your investments generally have earned? A.—Yes.

Q.—Then the profit from the non-participating branch of the business is determined upon the basis of the reserves. The non-participating branch of the business compared to the total reserves of the company. That is they are allotted a balance of the surplus in proportion to the interest of that branch of the business in its total assets.

Q.—Then is the proportion there between the total invested reserves of the Company and the reserves set apart for non-participating policyholders or is it between the two classes of insurance? A.—It is between the two classes of reserve. That is the balance of the profits arising from the total business, which is, of course, from the policyholders generally, is apportioned in proportion to the reserves under the participating and non-participating branches of the business.

Q.—That is the method you adopt for ascertaining the interest in the remaining profits upon all the investments. Of course the investments exceed the reserves? A.—Yes.

Q.—But you leave the volume of investment out of the question altogether, just dividing in proportion to the reserves? A.—Yes, I should say of course that interest earned on any amount at the credit of policyholders account is also credited to that account in the same way as interest on the

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

shareholders' fund is credited to that account.

Q.—That is where you have already made a distribution, that distribution you preserve and provide for before you go on with what is left? A.—Yes, quite so.

Q.—Then is the reserve that is to be for the non-participating policy the true measure of its right as against a participating policy, from the insurance standpoint is that sound? A.—Well, I would not say that absolutely it is. I do not know that you could determine upon any basis that you could say was absolutely sound.

Q.—I am making this suggestion—it is a subject upon which you know much more than I do—would it be possible to ascertain what the initial contribution of the non-participating policyholder was as against the initial contribution of the participating policyholder, and so treat the whole contribution as being invested and each entitled to its proportion? A.—I don't believe it could upon any correct basis. As soon as you commence to apply principles of that kind you are in conflict with difficulties and arbitrary methods of adjustment have to be adopted. You have to assess the expenses, you have to eliminate the savings from mortality on the different branches of the business and then you would have to carry that out to its legitimate conclusion and eliminate the investments which had been made by the funds arising from the one branch of the business, from those arising from the other. I do not think it would be possible to ascertain the profits in the manner which you suggest.

Q.—You can tell me perhaps if there is any similar objection or any other objection to adopting the method you do, that is apportioning between the respective volumes of the reserves? A.—I think it is as fair a basis as could be adopted.

Q.—Then do I understand you to say that the participating policyholders and the non-participating policyholders, according to the volume of reserve in each class have divided between them all the earnings beyond what you have spoken of, the earnings upon the capital stock and the amount set apart at profit distribution? A.—Out of the earnings then on the participating branch of the business the charter provides that 10 per cent. may be transferred to the shareholders' account. That of course was done in the early years of the company. Since 1887 or 1888, I won't be just sure of the exact date, only 5 per cent. has been so transferred.

Q.—And then the amount that has been ascertained as attributable to the non-participating reserve, where does that go? A.—To the shareholders' account, of course.

Q.—Can you tell me speaking in round figures, what proportion the non-participating reserves bear to the participating reserves? A.—I cannot tell you at the moment. Probably, approximately 10 per cent. A varying sum.

Q.—You are giving me an approximation to the best of your judgment? A.—It might not be that much and it might be more.

Q.—It is not as much as 20? A.—Oh no, it may have been in the early years of the company. I think that the proportion of non-participating business in the early years of the company to the total business was greater than it is at the present time. That is on life and endowment plans which carry a higher reserve.

Q.—I am reading from a paper which has been put in my hands—which has reached my hands I should say—and I want to see whether there is anything in what is said here. The suggestion is that the participating policies only have in the first instance, set apart for them after analysis, the surplus derived exclusively from them, and that the surplus derived from all other sources, including profits from sales, from speculation in investments and otherwise, are not included in the surplus attributable to participating policies. I understand from what you have said to me this morning that that is erroneous? A.—Absolutely so.

Q.—Then a further suggestion is made, that you have in your charter a provision for charging losses back in the case of participating policies, while no charge back is made in respect of shareholders. What do you say to that? It is, of course, not consistent at all with the account you have given me, is it? A.—I do not know whether it is or not, but I think they are misapplying the section. As I explained to you the other day, the section was intended to apply to interim allotments of profits which might be made to policyholders during the currency of a quinquennial period. In the early years of the company—it has not been done latterly—the practice was occasionally at any rate, I do not know that it was general, to allot the profits to the participating policyholders from

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

year to year and sum the total up at the end of the quinquennium, and it was found that sometimes these amounts had to be adjusted. That section was intended to be applicable merely to an adjustment of these amounts that had been credited on the books year by year on these policies. It was never intended to apply back to the profits which have been allotted and paid for a previous quinquennial period.

Q.—When you were adopting that yearly method, perhaps we can get at the gentleman's question in another way—when you were adopting that method of making an annual allocation in respect of a quinquennium which had not yet arrived and you found a necessity for readjustment, say in the fourth year, would that readjustment affect or cover or embrace in any way the dividends which had been paid to shareholders? A.—No, those interim allotments that were made were never formal allotments. The actual ascertainment of the divisible surplus was not made until the end of the five years. The interim allotments were made upon the basis, I suppose, that had been followed for the previous quinquennium and might or might not be in accordance with the facts of the case.

Q.—Then do you declare dividends upon your stock each year or do you in the quinquennium provide a sum which you distribute as dividends during the succeeding five years or how do you do that? A.—We now have no fixed quinquennial period of the company. The quinquennial periods apply to each individual policy and the profits at the end of each year are ascertained and divided between the shareholders and the policyholders upon the basis which I mentioned.

Q.—That is done each year? A.—Yes.

Q.—Is it done in respect of all policies each year or only in respect of policies which have reached a quinquennium? A.—The profits so ascertained are credited to the policyholders' account, though not necessarily divided. To all policyholders, of course. That is it is set apart, that surplus is set apart for the credit of the policyholders. To the credit of "participating policyholders' surplus account," I think it is called in our ledger, and is divided part of it in that year, part of it the next and part the following year according as those policies reached the termination of their quinquennial periods.

Q.—Now to the capital stock you set apart for the shareholders each year the shareholders' proportion of the profits? A.—We do.

Q.—That is paid over? A.—No, not necessarily.

Q.—A dividend is paid out of it? A.—Yes.

Q.—Have you ever exceeded that? A.—Never to my knowledge.

Q.—Assume that a loss arises which affects the computation of the profits to the policyholders and makes the profits less than the profits which had been allocated year by year? A.—Assuming that we have a loss in this year of grace, that comes out of the surplus of that year and the balance is distributed between the policyholders and shareholders' accounts. That is the system we have followed.

Q.—You do not affect the book keeping or computation of the previous year? A.—Oh no, we do not. I might say that some years ago we did have a special fund set apart that is out of the profits for the year we set apart a sum to the credit of, I think it was called, Contingent Account, to provide for possible losses of that nature. That fund disappeared, however, some years ago. Since that time our policy has been to charge against the profits for the year the losses for the year.

Q.—Do you say that that contingent fund is still in existence? A.—No, we have no contingent fund. Have not had for some years.

Q.—What became of it? A.—It was absorbed, the moneys were applied in the payment of losses I think. It never was a very large fund. It ran for some years and where a loss was probably looming up a sum was set apart to provide for it and carried to the credit of this account before distributing the surplus for the year. I remember in one instance we had a claim which was not recognized. We carried it to the credit of that account and it was subsequently paid out of it.

Q.—Would it be possible for you to furnish us with an abstract of that fund which has been carried to the credit of shareholders? A.—That is you mean the amounts from year to year?

Q.—Yes? A.—Oh, quite.

Q.—And the amounts that have been paid out in dividends? A.—Yes.

Q.—Is there a surplus there now? A.—Yes.

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—A very considerable surplus? A.—No, not very large.

Q.—That depends on what is called large? A.—Well it may be $30,000. I don't know. I think perhaps $35,000 it was at the end of the year but probably depleted by the dividend paid at January 1st, if my memory serves me right.

JUDGE MACTAVISH: Has the dividend varied from year to year? A.—It has not varied for many years.

MR. SHEPLEY: Has the fund divisible among the shareholders ever been exceeded? A.—I think I can safely say never. I think I can say that in regard to the last 20 or 25 years.

Q.—Then when a policy which is written upon the deferred dividend method reaches the period of distribution, what do you do in respect of that class of policy on the method you have adopted, what has been the profits allocated to these policies year by year, and what method have you arrived at when the time comes for the distribution of those profits? A.—The profits alloted at the termination of the different quinquennial periods, which have been credited to the policy although not recognized as liabilities in the meantime, are improved at the rate of interest earned, subject to a charge for expenses, and are also credited with the profit arising from lapses on policies. Or to put it in a different way, so that there will be no confusion of terms, they are credited with the profits which fell in out of the dividends which have been actually allotted to those policies as well as with the interest earned upon the funds, so that the fund which was allocated to the policy at the end of the five years has been accumulatel from year to year up to the end of the ten years, when another dividend is then apportioned and that fund is again accumulated during the currency of the succeeding quinquennium and so on to the end of the 15 or 20 years.

Q.—Now when you come to deal with a certain number of policies, say there are 100 policies which set out in the same year and which reach their deferred dividend period in the same year, assuming they had all persisted, 100 policies would be entitled to all the profits that had been earned in respect of those policies? A.—Yes.

Q.—Numbers of those have lapsed, say 50 of them in the meantime. Those 50 would have had to their credit a particular sum had they persisted. Is that carried forward by improvement in the same way from lapsed period to lapsed period until you reach the period of distribution? A.—It is carried forward from the first period to the second, and then is dealt with.

Q.—Supposing a policy lapses at the end of the 4th year? A.—I would not deal with the 4th year. We make no allotment until the end of the 5th year.

Q.—Then that will make me ask you another question. Say that that policy lapses at the end of the fifth year; it has then had a certain proportion of profits allocated to it? A.—Yes.

Q.—Is that improved forward? A.—It is.

Q.—As though it were persisting except that it has not any premiums added to it? A.—Quite so. Improved by interest.

Q.—That is carried forward until it arrives at the period of distribution? A.—No, not necessarily the period of distribution. We carry it forward until all these policies reach their next quinquennial period and then we distribute that.

Q.—You distribute it then among all who are entitled to distribution that year? A.—We do not deal with them by years. We deal with them now by the entire class of policies.

Q.—I am not sure that I quite understand that. The idea I have in my mind, and that I want to get cleared up is this: Supposing at age 25, A, B and C insure in a particular year all on the same plan, with a deferred dividend period of 20 year. Now if A only arrives at the end of the 20 years, one would suppose he ought to get whatever would have been to the credit of B and C? A.—We do not treat them by years. We did originally, but we abandoned that for reasons, and we treat the accumulated dividend class as a whole; and the profits arising in the accumulated dividend class from dividends on policies which have lapsed or are discontinued in any way enure to the benefit of the persisting members as a whole.

Q.—Then supposing you arrive at the end of a quinquennial period when some of your policies are entitled to distribution definitely and some only to have something ad interim, awaiting the Tontine period, do the quinquennium policyholders get anything from that? A.—No, the quinquennial

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

policies do not get anything of that. That goes wholly to the accumulation policies. That is I am speaking now of profits or surplus fallen in, not profits arising from lapses or surrenders. Cash values.

Q.—Then if a policy which is a Tontine policy falling due or the distribution period of which arrives five years after this policy is issued, will that policy get the benefit of the lapses of policies issued in that year? A.—Will you please repeat that?

Q.—Take the years 1900, then 1905, 1910 and 1915. That gives us a 15 year tontine period. Now in 1905 certain tontine policies issued in 1895 and so on will arrive at their distribution period? A.—Yes.

Q.—Will they get not only a portion of the surplus arising from lapses in respect of policies issued before 1900 and also in respect of policies during 1900 and lapsing between that and 1905? A.—Yes, they get their share of those profits.

Q.—That is you have abolished any distinction between people who enter upon their tontine period in the same year, there is no distinction preserved between those who enter their tontine period in 1900 and those who enter in 1895? A.—Oh no, so far as distribution of surplus from policies, which may be allocated from policies which may lapse or be discontinued, it is distributed amongst the members as a whole. For example supposing we find we have a certain sum, take for convenience $100,000, at the credit of accumulated dividend policyholders. That is apportioned to them on our books, if $10,000 of that should fall in that would be distributed amongst the remaining members as a whole, not according to years of issue at all.

Q.—That perhaps will be shown by this computation which you have given us. I think we can illustrate that from the instance you have given us here of the computation of the dividends for 5 years to 1905. You have given us two policies here, an all life policy issued at the age 25 and reaching its fifteenth year in 1905? A.—Yes.

Q.—Then you have compared that with a policy at the same age, a 20 year endowment? A.—I did not compare it.

Q.—The illustration you have given us is that. The other illustration is year of issue 1900, so that that man has reached his fifth year? A.—Yes.

Q.—Now take the all life policy premium $17.95. When 1905 has come you first write down the reserve? A.—Yes.

Q.—That is on the H.M. Tables at 4½ per cent.? A.—Yes. Of course you will understand that is merely an illustration. We do not compute them in that way. I thought it would exemplify them better than in the way we do it. The same result is obtained.

Q.—You first take the reserve and add the 16th premium less 7 1-3rd. What is that for? A.—That is the expense charge. I think that was explained.

Q.—And then you calculate interest at 4.7 per cent.? A.—Yes.

Q.—That gives you a further sum. Then you deduct from that the cost of insurance? A.—The tabular cost. The mortality cost.

Q.—And that leaves a fund at the end of the 16th year? A.—Yes.

Q.—Then what? A.—That is followed on from year to year. There is no change in those factors during that term. There may be a change, of course, but there happens not to be in this year .

Q.—Then you deal with the other commencing with the first premium. This has only reached five years; year of issue 1900, it is 5 years old, and you compute taking the first premium, 8 per cent. plus $10? A.—Yes.

Q.—Then interest you compute at the same rate, 4.7. Then you take away the cost of insurance? A.—Yes, in the same manner.

Q.—And you get a fund at the end of the first year, and then in the same way you take the second premium less 8. Why less 8? A.—That is the second year's premium, and that is the first year's charge.

Q.—The fund at the end of the fifth year is $210? A.—Yes.

Q.—Reserve at the end of the fifth year $189.13 and the difference is gross dividend? A.—Yes.

Q.—Then you take off the stockholders' 5 per cent. and the remainder is the dividend, $19.83, assessable to this endowment policy at the end of 5 years? A.—Not assessable, but the reverse.

Q.—Distributable? A.—Yes.

Q.—Then taking the all life policy which has run 20 years, the premium is not so great as 17.95, but the dividend at the end of the twentieth year is $19.10? A.—Yes.

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—Arrived at in the same way? I want to put that in; that is an illustration which is of very great value to the Commission (Illustration of the computation of dividends filed as Exhibit 165). Before leaving that subject and going back to what I have diverged from I want to ask you about an answer to the 8th question under the head of Profits. "Profits are computed upon what is generally known as the contribution plan." Did you intend the rest of this paragraph to describe the contribution plan? A.—Oh no, I do not say we follow the contribution plan precisely. As a matter of fact I do not suppose what is known as the contribution plan is followed absolutely in the same manner in two or three companies. There are always variations.

Q.—What is the origin of the contribution plan? A.—Mr. Sheppard Homans and Mr. Fackler were the originators of the plan.

Q.—What was the underlying principle of the contribution plan? A.—Supposedly to distribute the surplus scientifically among the sources from which it arose.

Q.—Could it be expressed in this language, that the principle was to return to each policyholder exactly what he had contributed to the surplus? A.—That is the theoretical idea. I do not know that it has ever been worked out in practice.

Q.—Then in the first place a company assumes a particular rate in computing the reserve? A.—A rate of interest, yes.

Q.—If in practice a greater rate of interest is earned then the difference would on the contribution plan go to the particular policyholder who had contributed? A.—Yes.

Q.—Then did the same principle apply to loading? A.—Theoretically.

Q.—If he had contributed a particular sum as loading for expenses and the expenses had been somewhat less in respect of his policy, he would be supposed to get back that portion of the surplus also? A.—Yes.

Q.—Then would he also get back in this theory of contribution the saving in mortality? A.—Yes, he would theoretically, but in applying that contribution plan, as I have intimated the mode of applying it differs in different companies. I know more than one of them who apply all the mortality savings to defray the expenses.

Q.—What I want to do first is to get the typical instance of the perfect theoretical contribution plan. When we have it laid down as a theoretical principle we can better deal with any particular applicatian of it. Then the gains from forfeiture and lapses, how would that be in the theoretical contribution plan? A.—Well, I cannot say what the idea of the originators of that plan was in regard to profits from lapses and surrenders. A portion of it, perhaps a very considerable portion of it, would be applied to the obtaining of new business to put in the place of the life that had passed off, a new life, so that the vitality of the company would not be impaired by the withdrawal, the presumption being that it is the better class of lives that withdraw from the company, those that can get insurance elsewhere, at any rate supposed to be more liable to withdraw than the man who cannot get insurance, whose life has become impaired.

Q.—What is it that is at risk by reason of forfeiture and lapse, is it not the reserve? A.—Well, I don't know that the reserve is at risk, that is the amount of course that the company may be liable to apply to the individual account.

Q.—Is that what the man is liable to lose by lapse? A.—Oh yes, when you individualize as popularly done, the reserve value to the policy; although theoretically the reserve value does not belong to the individual policy, it belongs to the policies as a whole. This is only the average, of course.

Q.—Taking that view of it and individualizing the reserve as you say, then the amount at the credit of reserve is theoretically at all events the amount at risk of lapse? A.—Yes.

Q.—Then supposing there is a salvage in respect of that, ought not those who share on the contribution plan to be entitled pro rata according to the amount they have at risk? A.—I don't know that they should. Those that continue have no direct interest in the reserve or that portion of the reserve which is forfeited under the policy of the man who lapses his policy.

Q.—I will change the form of the question somewhat so as perhaps to give a better illustration of the principle. Supposing you are dealing with policies written on the tontine principle, where the survivor expects from his contract to get the benefits of intervening lapses. Now, would it not be theoretically entirely correct to divide the proceeds of those lapses upon

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

the basis of the reserve? A.—Applying the old tontine idea it would. That is it is applied to the credit of the fund. That is quite true but that it not the principles which are generally applied to life insurance.

Q.—Would not that have exhausted the theoretical contribution plan, is there anything that I have left out? A.—No. But in regard to those profits from surrenders and lapses I think that while they generally should be applied in regard to getting in a new member they may be applied in other ways as may be deemed expedient. I think it is a sort of balance wheel in the company in respect of the distribution of surplus. I always applied them in the same way myself.

Q.—In what respect does your method differ from the method that we have just sketched out, which is the plan of contribution pure and simple theoretically? A.—Well, I think we credit all the savings from mortality to the expense account. I think we differ only in that.

Q.—The savings from mortality go to the payment of expenses? A.—Yes

Q.—That is leaving out the question of lapses, because you do that with respect to lapses also? A.—We do that, now.

Q.—Then is it in accordance with the contribution theory to make a charge based upon a percentage of the sum insured against the first year business? I am following your language here? A.—I think that generally the system adopted is to take a percentage or proportion of the loading and apply it towards expenses instead of basing that charge upon the premium, but I considered that when we had varied rates of premium and that charge was substantially a collection charge or did not cover more than at any rate the collection charges and the taxes imposed, that that basis of assessing the expenses was more equitable than the other. I would add to that, I think that if that charge instead of being as it is 7 or 8 per cent. was twice that, then some other mode of assessing these expenses would have to be considered. I think that perhaps up to even 10 per cent. it would be quite as fair and just as the other method to which I have alluded.

Q.—Now I do not know that it is open to criticism and I would not venture to criticize it, but I want to see whether the fact is so. It will be for someone else to criticize. Is the result of the plan which you adopt—to adopt the same percentage of premium for all classes of policy, life, limited payment life and endowment—I think you have already said so in effect? A.—Yes, that is correct.

Q.—I would like you if you can to give me the other side of the shield. Is that open to criticism from any other standpoint? A.—No, so long as the charge is as at present not more than a collection charge. I practically covered that in the answer to the previous question. 7 or 8 per cent. is not much more than is necessary to cover the cost of collecting the premiums and the Governmental taxes that are imposed upon the companies. If that expense charge was double 7 or 8 per cent., then I think some adjustment would have to be made.

Q.—You disregard the loading in what you do and by that means the life policy has had a larger loading put upon it in the first instance and gets back less of that than does the other? A.—Yes, I quite admit that if we had to provide for double that rate of expenses then some other basis of levying the expense would have to be adopted, but so long as that expense charge is limited to 7, 8 or 9 per cent., I think it is just as equitable as any other system that can be adopted.

Q.—I think from the illustrations we have looked at, the percentage of dividend to premium is no larger for life than for the other class? A.—Yes, it is larger. The dividend is more than the premium there, and it is less than half of it there.

Q.—Does that indicate an inequality? A.—No, not necessarily. You are comparing the first and the third dividends. You are not comparing two policies in their third year, although that disparity would still exist, it does not follow that the dividend will be in proportion to the premium.

Q.—Theoretically ought it to be? A.—No.

Q.—Why? I think I understand why but I would like you to explain it so that it will be clear? A.—There are several elements that enter into it. In the first place the loading on a different class of policy and the saving from interest are not the same. An endowment policy with a high reserve will yield a larger profit from interest than will a whole life policy with a lower reserve. Similarly there are variations in the mortality according to the class of policy. When you take these elements into consideration you will sometimes get results that appear

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

rather conflicting I admit but still are quite correct theoretically and practically too.

Q.—I think that you have told me that $10 per 1.000 is not enough for the initial expenses? A.—No, I don't profess to say that it is.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

—Resumed at 2 P.M., May 29th, 1906.

W. C. MacDONALD, examination continued:

MR. SHEPLEY: Would it be possible for estimates to have been prepared and used by your agents in the earlier years without having originated with the office? A.—I think it would.

Q.—What would they probably be working on? A.—Actual results plus their own imagination.

Q.—But so far as anything they used was concerned you do not accept any responsibility for that? A.—We always disclaimed responsibility. Of course how far we are theoretically responsible I cannot answer.

Q.—You think it probable however that they had something of the kind which originated with themselves and did not originate with you A.—I do not say it is probable, I say I think it is possible an agent may have made estimates, but I would not say it was probable.

Q.—Has it not been a feature of canvassing for life insurance during all those years that are in question to put out estimates, to furnish or display estimates to the persons being canvassed? A.—It has been a feature for many years in connection with tontine, semi-tontine or deferred dividend policies to put out estimates.

Q.—There would be a period of about ten years before you had any literature of the kind during which your agents would be in competition with others who would be furnishing estimates or displaying estimates? A.—Yes, but I do not think they had any estimates, Mr. Shepley, and I have made enquiry at the office and I cannot find any record of any estimates for literature of that nature having been issued to them during that time.

Q.—Then coming down to the literature that we have with us, the literature of 1893, in the first books containing estimates, I think there are estimates as to certain methods of insurance only, I think the ten year estimates are not made in the book of 1893? A.—I do not think we ever issued any ten year estimates, I may be wrong.

Q.—I think there are ten year estimates? A.—Yes, for one plan, but not for all plans, yes, perhaps that is correct.

Q.—What books are there since 1893? A.—There is the book issued in 1896, 1900 and 1902.

Q.—Taking as to ten year periods under the 1893 book can an approximate be arrived at as to those by comparing the ten year results in 1895 with the ten year results in 1905 where we have results? A.—I do not quite follow you.

Q.—You see you have no ten year estimates in 1893 book to compare results with? A.—No.

Q.—But I suppose we will not be doing the company an injustice if we assume your results in 1895 were as good as the estimates in 1893, that would be doing the company ample justice according to its experience? A.—Yes.

Q.—Speaking generally it seems to have been ascertained that there has been a considerable decrease comparing the ten year results in 1895 with the ten year results in 1905? A.—Possibly.

Q.—You have not looked into that at all? A.—I do not carry the figures now in my mind; I prepared some figures the other day but I do not remember what they were.

Q.—We can compare 15 year results with the 15 year estimates; first taking the ten year accumulation plan of which we have no estimate to make a comparison and using the result of 1895 as an estimate and comparing with that the result of 1905— A.—You are assuming we did that.

Q.—No, assuming that the gentleman who prepared this statement for me has done that, he found the result in a ten year endowment policy at age 35 in 1895 to be $118? A.—Yes.

Q.—And he found the result ten years later to be $81.77? A.—Yes.

Q.—That shows a considerable falling off? A.—Yes.

Q.—So with the age 45 and the result in 1895 of $125, and in 1905 of $83? A.—Yes. I would like now just before you pass that point to make an explanation bearing upon what I said this morning, that originally when these policies were issued we treated them each year as a separate class.

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

That was abandoned some years ago and since then of course—I may say the reason I advanced that was because I observed on account of our very small class you were going to get very inequitable results, and therefore it is possible that some of these results in those earlier years on account of the paucity of numbers, not getting a proper average, may be up in one year and down another, and perhaps the discrepancy is due partly to that as well as to the natural fall in dividends in the interim.

Q.—There has been of course a very considerable fall in dividends speaking in the large? A.—There has indeed.

Q.—And there has been a drop in the rate of interest that would account for part of it? A.—Yes.

Q.—Perhaps part of it by an increase in expenditure? A.—Increase in expenditure, and of course during the nineties there was financial troubles which militated against the surplus earnings of all companies who deal largely in mortgage securities.

Q.—In the case of your company this of course would range itself under a methodical head, but had you a good deal of difficulty in overcoming the great expenditure, the extraordinary expenditure—when I say extraordinary expenditure I mean it is not ordinary expenditure—in respect of your head office building, did it cripple your surplus producing power for a while— A.—Oh, it did of course; we had made of course a large investment there, and for some years after the building was erected the earning power was small and naturally that affected our gross earnings and ultimately of course affected the profit to the policyholders. That would apply of course in the case of any investment which was more or less unproductive, or which was not earning as high a rate of return as perhaps another class of investment; it could not fail to have any other result than to affect the surplus.

Q.—You say there was a period of financial depression in the first half of that decade from 1890 to 1895 or 1896? A.—Yes, even later than that; it was pretty well towards the end of the nineties before the tide turned.

Q.—The natural result of that would be to make your results fall below your estimates? A.—It would tend, that was one thing that tended to that result.

Q.—Of course people who have been in the business of insurance for a long time have found that explanations of that sort are not palatable to those who have been entertaining expectations? A.—No, we have found that.

Q.—People do not like to get less than they have been building upon getting? A.—They do not. Before leaving that point, Mr. Shepley, in regard to the reduction in the dividends I would just like to enlarge a little on what I alluded to this morning, that is the increase of course imposed upon companies by reason of the Government taxation, and which perhaps has a larger bearing upon the diminution of dividends than is generally supposed. Going back to the period when these estimates were put forth I have got the years here, 1888 to 1892, the taxes which were imposed upon us, the Government taxes which were imposed upon our company were only a fraction, a small fraction of the premium income.

Q.—When you say a small fraction — A.—Well, one-quarter of one per cent. probably. For the past year those taxes, the taxes which were paid in 1905, which were of course determined on the basis of the premium income for 1904, almost entirely so at least, they were over one per cent. These taxes are increased from year to year unfortunately, and I would specially mention the Province of Quebec which Mr. LeBeuf represents in the interest of his policyholders, and just point out what they have done at the last session which will prove detrimental to the interest of policyholders of that Province no doubt. They increased the rate of taxation to one and three-quarter per cent. of our gross premium income, which amounts with other taxes that are imposed upon us, license and fees, will bring the total taxation in that Province up to 2 per cent. at least. That one per cent. or more upon the premium income may not seem a very heavy charge, but when you measure that upon the surplus results you can then properly appreciate the effect of it. Going back to 1888 and 1892 the rate of taxation based upon the surplus earned on policyholders' account for those years was 2.3 per cent.

Q.—When you take percentage applicable to the premium income and apply it to the surplus? A.—Yes, which it must come out of. Bringing that comparison down to the last five years, 1901 and 1905, taking the total

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

for the five years if we take it for the last year it would show a more favorable comparison than the one I am mentioning; it shows percentage of taxes paid in proportion to surplus earned by policyholders' funds was 9.8 per cent., almost ten per cent. of the total dividends earned on policyholders' account had to be paid for State taxes or Government taxes. We paid in those five years the gross sum of $59,707. All of it must necessarily come out of the surplus earnings of policyholders, or almost all out of the surplus that would otherwise go to the pocket of the policyholder. Life Insurance companies have protested vigorously against this taxation and have been freely criticized for objecting to bear their fair share of the burden, but that objection has not been based because it has affected in any way the enjoyment of the shareholders' income, but it has been in the interest directly of the policyholders. We find the Government passing a law protecting a man who insures his life for the benefit of his wife and children, commending it as a good thing to do, and they turn around in another Act and impose a burden upon that man, upon every dollar he pays for life insurance, one per cent. is exacted from him in taxation. I did not intend to speak at such length upon the point. Then contrast that now with the system in Great Britain; I won't contrast it with what is done in United States because I will simply say they are almost worse there than we are here, and we followed the objectionable lead of the United States in this respect. In Great Britain, where of course the income tax is imposed upon every man, he is specially exempted from income tax on the amount that he pays for his life insurance premiums up to the extent of I think £150, which would be about $750 in our money. I won't be quite positive as to the exact figures, but those figures are approximately correct. Of course the Life Insurance Company is taxed, but the man himself is relieved from taxation to that extent. No such principle obtains in Canada. The man in first taxed on his income, then the money he paid for life insurance for the protection of his wife and children and to make provision for his own old age is again taxed over again on an improper principle on the life insurance company. I submit if taxation is imposed it should not be upon the premium paid, and certainly on nothing more than on the surplus earned and distributable.

Q.—I suppose it would not occur to a person not familiar with the subject that one per cent. of the gross premium might amount to nearly ten per cent. of the earnings of surplus? A. —I do not think it does, and if you apply that further you will find that perhaps that means 15 per cent. of the reduction in this, that is shortage in the dividend is directly due to taxation.

Q.—It might occur to a policyholder to answer that and I will see what you will say to that answer, by saying the intention of the Legislature was not to diminish the present life insurance to the policyholders but to diminish the earnings of the shareholders? A.—No, it is not a tax on the shareholder, it is a tax upon the policyholder; it is a tax on the gross premium he paid.

Q.—And that might be translated into the terms of a tax upon so much of the surplus earnings that goes to the shareholder? A.—The surplus earnings of the shareholder I admit are lessened thereby, there is not as large a fund in which he can participate; he must share a portion of the loss.

Q.—But your method of arriving at his share in the surplus earnings does not give him that disadvantage? A. —Yes sir.

Q.—Because you take out what your surplus has been earning? A.—That is only the interest, that is only one factor; there are three factors, there is the interest on the shareholders' fund, there is the non-participating policyholders' surplus, as well as the participating policyholders' surplus.

Q.—You have we will say $100,000 of surplus, and you are earning 5 per cent. upon that; what you do is to allocate to the shareholder upon his capital 5 per cent., because that is what it has been earning? A.—Yes.

Q.—That is not all affected by your subsequently taking out of that the surplus income ten per cent. in respect of the tax? A.—No, that is not, but if that tax had not been taken out the remaining fund would just have been so much greater. I do not claim the burden of that tax falls very heavily upon the shareholder; it is not imposed upon the shareholders to begin with, it is imposed upon the policyholders.

Q.—It is imposed on the premium income? A.—An absolutely wrong

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

principle; if taxation should be imposed upon the business of life insurance, if it is looked upon as a trading business, it certainly should not be imposed upon that fund which is set apart for the payment of death claims and to meet the liability under the policy when it matures; it should be on any surplusages or over-charge which would be returnable to the policyholders.

Q.—This is perhaps not in its order, and indeed we are taking the subjects very much as they occur to us this afternoon, but I do not think I asked you on the first day when you were here with regard to your second issue of capital stock; you had first an issue of $500,000 with ten per cent. paid up, and subsequently you issued the balance of the million, another $500,000 with ten per cent. paid up; how was the second issue paid? A.—$30,000 was in the form of a bonus dividend, I suppose will express it, in 1882, and the balance $20,000 in 1887.

Q.—Also by way of bonus? A.—Yes.

Q.—So that apart from the earnings of the company the cash subscribed and paid by the shareholders has been the original $50,000 only? A.—Yes. I was hesitating in my answer a little, I was not quite sure whether $30,000 was taken in 1882 or 1887, but I am pretty positive I am correct.

Q.—At all events it was $30,000 in one year and $20,000 in another? A.—Yes, I think I stated it quite correctly.

Q.—Returning to these estimates, Mr. Dawson has worked out for me some estimates which I desire to have upon the records, and these are upon policies issued in 1890, dividend paid in 1905, upon estimates prepared by the company in 1889? A.—1890 to be correct, the book was issued in 1890.

Q.—First at the age of 25 on the life plan, estimate $120, result about $60; at age 35 estimate $177, result $85. At 45 estimate $276, result about $115; at 55 estimate $431, result about $170. I do not know whether you have checked these at all? A.—Of course they were all carefully prepared, but I fancy when he says "about" that he has interpolated for ages.

Q.—Yes? A.—I fancy any figures that are supplied by Mr. Dawson are correct.

Q.—Taking the next, the 15 payment life; at the age 25 estimate $206, result $96; 35, estimate $268, result about $135; at the age of 45, estimate $376, result about $165; age 55, estimate $540, result about $250. And then the 15 year endowment age 25, estimate $295, result $117.80; age 35, estimate $313, result about $118. Age 45 estimate $362; result about $120. Age 55, estimate $439, result about $133. There are also figures prepared for the twenty years accumulation plan, policies issued in 1883 to 1886, dividend paid in 1902 to 1906, plan ordinary life; age 25, no result—there is no use in giving these where there is no result. The only result there has been found is in respect of the 20 year endowment at age 25, estimate $470, result about $170. Mr. Dawson has made a comparison between actual dividends in 1905 and 1906, and the estimates now in use; when were those estimates prepared? A.—The latter part of 1899.

Q.—You have not prepared any since 1899? A.—Yes, in 1902, I had forgotten that; that was perhaps merely an adjustment, there was the same aggregate result, same aggregate cash value of the policy at the end of the period is shown, the difference is merely there is a larger balance of that carried as reserve, and a smaller portion as surplus under the estimate we will say in 1900, prepared in 1899. This would apply to the difference in reserve in life and limited plans.

Q.—Should not we have expected when you were getting actual results you would have modified your estimates? A.—Our premium rates are very much higher.

Q.—And the interest lower? A.—Not lower than it was ten years ago.

Q.—Did you suppose that the addition to your premium rates would be sufficient to maintain the estimates? A.—I supposed with the improved condition of affairs it would enable us to earn during the coming decade notwithstanding increased expenses, quite as large profits as we had made in the past decade, and I think that that estimate or judgment formed will be justified.

Q.—Then we will just take a few figures for that; taking the ten year accumulation period man at the age of 25, you are estimating $194, there is no actual result to compare that with. At the age 35 you are now estimating $198, while your actual result in 1905 on those are only $81.77? A.—What is the difference in premiums?

Q.—That he has not given me? A.—You will find there is a difference there of four or five or six dollars a year in

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

the amount of the premium, and I think if you will take that difference in premium and just accumulate it at interest you will find it will quite make up that deficiency.

Q.—I will submit that to Mr. Dawson; have you an accurate differentiation of the premiums? A.—I have an all-life here age 25, $1,000, dividend paid $18.98, $68.09, reserve set apart $137.56—I am making the fund—difference in premium $3.35, which I have accumulated at 5 per cent.—the answer may be that is a high rate, but in addition to interest we have allowance to make from the profit arising from lapses which has never fallen below one per cent. per annum, and has been as high as two per cent. per annum. I am speaking of profits from dividends falling in, which does not enter into the original dividend set apart. This is the accumulation from profits under the deferred dividend policies, not to any profit from lapses in the way of surrenders, cash values and so forth. It gives us total fund at the end of the 5th year of $281.55; estimated value reserve $170, surplus $115, $285, or $3.45 there against me. Come to the 15 year accumulation period age 23, dividend paid in 1900 $138.32. I leave the fund out there, because it is $1,000. Difference in premium $7.05. At 5 per cent. it amounts to $159.73, making under that basis a total surplus at the end of the 15th year of $297.86; estimated surplus $273. I take the 20 year endowment, age 26, $1,000, dividend paid 1906, $170.30. Difference in premium $6.10; accumulated at 5 per cent. $211.75. Surplus, end of the 20th year, $382.05; estimated surplus $376.

Q.—So that you were comparing the estimates which you are using now with certain results as far back as 1896 and 1898? A.—I am comparing that with the dividend paid in 1906.

Q.—You said 1896; you said 1898 here? A.—I did back here.

Q.—But it would not have been 1906? A.—We did not have any 20 year dividend results until the last year which I could properly compare with.

Q.—What was the dividend result, $170.30? A.—Yes; you are quite welcome to that statement.

Statement of comparison and actual result with present estimates, just referred to, filed as Exhibit 166.

Q.—When did you raise the premiums? A.—They have been raised at different times, they were raised in 1896 and then in 1900 again.

Q.—You have not raised them since 1900? A.—No.

Q.—You have had the high premiums for 5 years at least, in these instances that Mr. Dawson has given? A.—Six years.

Q.—Notwithstanding that advantage these premiums are the figures on the 15 year accumulation period plan, ordinary life, result about $60, while your estimate was $118. Age 35, result $85, and you are estimating $144. Age 45, actual result about $115, and you are estimating $187. Age 55, result $170, you are estimating $270? A.—You say notwithstanding the advantage—

Q.—The advantage you have had in the increased premiums for five or six years? A.—That does not affect the result under those policies.

Q.—Does not it? A.—No.

Q.—This has been headed by Mr. Dawson, "Actual dividends in 1905 and 1906 and estimates now in use?" A.—On policies issued 15 years ago at a lower rate of interest; those policies would not be benefited by the high rate of premium now charged.

Q.—You are right, because these are 15 year accumulation policies. I think then that that will be all the instances that I wish to put in of that. Now, a cognate subject is this; this is a memorandum, I do not know whether Mr. Dawson prepared it? A.—I prepared it for Mr. Dawson, or had it prepared.

Q.—This is a memorandum? A.—Deferred dividend policies.

Q.—And the first item in it is number of 15 year dividend policies issued in 1890, 88; number of same which completed their period in 1905, 59 or 68 per cent.? A.—Yes.

Q.—Mr. Dawson says that is a very high percentage? A.—It is.

Q.—It indicated remarkable persistence? A.—It does. And it depends upon the point I was speaking of this morning, at least it has a bearing upon it, that on the question of the payment of agents by salary, I believe business obtained in that way is more persistent than business obtained by commission, and I believe too the system we have introduced in recent years of dispensing with the renewal commission and making our collection of

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

premiums through local cashiers tends to the persistency of the business, and in that connection our experience is confirmed by the experience of the Mutual Life as stated by Mr. McClintock in his evidence before the Armstrong Commission, and also by the late Mr. McCall in connection with the New York Life in an address he gave to the National Life Underwriters' Association some few years ago. They both testified that under that system the business was more persistent than it was under the other, and our experience leads us to the same conclusion.

Q.—Is it not a great deal better in that connection, for the company to write less business and have it more persistent than to write an enormous quantity of business and have it fall off within the first year? A.—I certainly do not believe in any company writing an enormous quantity of business; of course a company is a going concern and we cannot stand still until you get to the—

Q.—I am not sure whether that is one of the things you are having prepared for us; are you preparing a comparative statement of policies issued in any one year which lapsed during the various years which policy may have been supposed to have been in force? A.—I do not think we were asked to prepare them, but I think I had it prepared for my own information the other day at the office; I gave instructions to have it done and I think it has been done.

Q.—What proportion of those policies can you remember issued in any one year, lapsed after the payment of the first premium? A.—I would not like to answer offhand.

Q.—Is it a large percentage? A.—Yes.

Q.—It was about 90 per cent. in the case of one of the other companies, would it be as large as that in yours? A.—I do not think so; are you speaking now of business that lapsed pure and simple or total discontinuances?

Q.—I mean policies which pay one premium and no more? A.—Because lapse is technical; in life insurance we speak of a policy lapsing for which no consideration is given.

Q.—I mean a lapse which pays one premium and then drops? A.—As compared with the total discontinuances?

Q.—Yes? A.—It would not be that much, I am not sure.

Q.—Perhaps you would before the enquiry is over, have that statement? A.—With pleasure. Do you wish it for more than one year or over a sufficient term of years to show an average?

Q.—I would rather have it over a sufficient term of years to show an average? A.—Very well.

Q.—The next number of ten year dividend policies issued in 1895, twenty; number of same which completed their period in 1905, 12, or 60 per cent. That also is said to be a good persistence? A.—I think it is good.

Q.—Perhaps the number of policies is too small to deduce a principle from it safely? A.—True, but do you see the same result contained in the three different classes, and the result in the aggregate will not vary much on any one of them.

Q.—Five year dividend policies issued in 1900, 69, and the number of them which completed their period in 1905 was 46, or a percentage of 66 per cent? A.—Yes, that is an evidence of the greater persistency of deferred dividend policies.

Q.—There is a difference in principle, but there ought not to be a difference of persistence between the deferred dividend policy with a five year period and a policy with a quinquennial period, ought there? A.—The five year dividend period and quinquennial period is the same thing. You mean there should not be any difference between the shorter and longer dividend period?

Q.—Yes? A.—There is a marked difference; there is no doubt about it that the longer deferred period, the 15 and 20 year deferred dividend period policies are much more persistent than the five year, than an annual dividend policy would be; that is our own experience, and I think it is the experience of the American companies that have operated these deferred dividend policies for many years.

—Memorandum referred to re deferred dividend policies filed as Exhibit 167.

Q.—Let us see if we can get a principle out of that; all insurance, leave out of question a distinction as to deferred dividend insurance, all insurance tends to persistency after it has been a long time in force? A.—Yes, the longer the policy is in force the less liability there is of discontinuance. A man does not feel like discontinuing a life policy which has become valuable.

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—Is there any element about the deferred dividend policy except this which is any improvement upon that principle; the fact that he is paying more and stands to get more if he persists, is not that the only respect in which the principle works to the advantage of the deferred dividend policy? A.—I do not appreciate your question.

Q.—You have told me that as a policy increases in age its persistency increases? A.—Yes.

Q.—That of course is the principle; now do you get anything in addition to that principle in favor of the dividend insurance as against others, except the one fact that the man has paid more and stands to win more by persisting? A.—Of course under the deferred dividend the man whose policy has been in force we will say for a few years and drops it stands to lose more than the man who is on the quinquennial or annual dividend policy, and who has withdrawn his dividend, and therefore that acts as a deterrent influence. In addition to that I think that almost from the inception of the policy there is likely to be more persistence for the reason that a man who takes a deferred dividend policy, 15 or 20 year period, he looks forward to carrying that through, he does not look at it quite in the same light that the man who would take a five year dividend policy would. He will say, "I can drop this at the end of five years and get my dividend, and I won't lose perhaps very much." He goes into it with the intention of carrying it to its termination, and getting the full benefit of the accumulations under the policy.

Q.—That is to the credit of the deferred dividends? A.—Just one thing further to the credit of it, and that applies also to endowment policies, but I won't speak from experience in our own company, I have not analyzed it, but I believe it to be true, and it is the experience of all the American companies where they have analyzed their experience carefully, that there is greater persistence under endowment policies than other classes of insurance, in fact it is found as a general principle that the higher premium policies are more persistent than the lower premium policies.

Q.—The man who takes a deferred dividend policy or an endowment policy is looking not so much towards the protection of his widow and orphan children as he is towards his own advancement and advantage? A.—I won't say that.

Q.—There is that element in addition? A.—He is looking to his own advancement, there is no question about that, and there is a much larger proportion of insurance taken to-day, apart altogether from the dividend results, where a man looks to his own advancement or profit, when the policy matures than was the case some years ago, the all-life contract does not appeal to intending insurers to-day as it did 15 and 20 years ago.

Q.—Why? A.—Because the man recognizes this fact that it is necessary for me to make provision for my wife and my family, assuming he has one—he may be 25 or 30 or 35 years, and if he has not a wife and family or some one dependent upon him he recognizes he may be assuming responsibility, and he has to provide for those responsibilities during a certain period of life, but there comes a period in that man's life time when these responsibilities will perhaps altogether disappear with the exception perhaps of his wife; his children grow up, they are married and settled, and there is not the same necessity for him to make provision for them as there was in his younger years. He realizes the fact that there may come a time in his own life time when it is necessary for him to provide for himself; for that reason the 20 payment life policy has become one of the most popular forms of policy contract that is written; there are more 20 payment life policies written not only in our company but I venture to say in every company in Canada than any other form of contract.

Q.—You mean on the tontine? A.—Yes, or deferred dividend plan, because at the end of the 20 years that man has got several valuable options offered to him; if he wants insurance he can continue the policy, and he can get further insurance if he is in good health by the application of the dividends; if he wants to provide an income for his old age he can surrender the policy and purchase an annuity on favorable terms; if on the other hand he does not want the insurance and does not want the annuity and wants the cash he has the privilege of commuting that.

Q.—You reject the debit I am suggesting to you altogether? A.—Put it again please?

Q.—That the inducement to the deferred dividend insurance and to the

endowment insurance is an inducement which appeals to a man from his own standpoint and not so much from the standpoint, or not at all events altogether from the standpoint of those depending upon him? A.—It does appeal to him, there is no doubt that feature enters into it.

Q.—Would it be right to say those forms of insurance are forms of insurance for men who are better off, better able to pay than the man who takes the ordinary full life policy? A.—I think so, I think the man who is not well off would not be so well able to take that form of contract as the man who is well off and feels that he can carry the contract through. The man who is not so well off would perhaps be more inclined to take a form of policy where he could get his dividend from year to year and from time to time, at shorter periods, as might be the case.

Q.—Then is there anything to the debit of that kind of insurance in this circumstance or does this circumstance exist or affect it at all, that that class of insurance appeals to the man who has the sporting instinct? A.—Perhaps so, we are all born gamblers, at least there is a little of that element in all our compositions.

Q.—He goes into the pool with the hope that he will persist and get the pool? A.—Well.

Q.—Mr. Nesbitt suggests that it appeals to a man whose earning power will increase and come to its maximum about the time, or perhaps begin to fall off about the policy begins to fall in? A.—Yes, a limited payment life policy. There are a great many people who do not wish to feel they had to pay so long as they live, whether they can afford to or not; they like to look forward to the time when their payments shall cease.

Q.—Are not these plans, to the extent to which I have ventured to make these suggestions an encroachment upon the old idea of insurance? A.—No, I do not think so, we are not affording any less protection, and certainly the deferred dividend plans have done much to popularize life insurance.

Q.—When you say that you mean to attract? A.—Yes, and millions of dollars of insurance have been written that never would have been written, millions of protection have been afforded to dependent ones that never would have been afforded if they had confined themselves to the old straight life, annual or quinquennial dividends.

Q.—There is one other criticism I venture to offer for your consideration; these plans tend to keep in the hands of the insurance company for longer terms of years large sums of money? A.—They do.

Q.—Do these plans then tend to lend themselves to the sort of thing that we heard of in the State of New York? A.—Well, they may in some companies.

Q.—The accumulation of large funds which are being made use of for private purposes? A.—I do not see that that follows necessarily, it does not matter whether the funds are—

Q.—Not necessarily, I did not say it followed necessarily; does not it tend in that direction? A.—I would like to answer the question in my own way; I do not see that it makes a particle of difference whether these funds are surplus funds or reserve funds, by whatever name they may be called, it would not prevent the using of those funds for private purposes in the way you allude to.

Q.—The funds won't be so large? A.—But they are large enough, the funds in the control of the management of the large companies to-day to which you have alluded are large enough in all conscience to afford any man a scope for speculative use of funds.

Q.—But the funds tend to grow upon the adoption of these plans? A.—Of course the fund is increased, but after all what does the increase amount to? Take the case of our own company, ten millions of assets, by the speculation and mis-use of the company's funds there is quite a scope to do that with the ten millions of reserve—

Q.—But with the growth of funds seeking investment the avenues of investment may become more questionable? A.—Perhaps so.

Q.—That is perhaps something which it is not necessary that an insurance man should have a better opinion than others? A.—We know the larger the accumulation of funds in the control of one man or a small body of men will perhaps tend, if they are not men of very great principle, to extravagant ideas and indulgence in speculative tendencies.

Q.—There is a paper here prepared which is annexed to a letter from you

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

to Mr. Dawson, will you just explain what that is, the first page of it is all life? A.—All life quinquennial dividend plan, policy issued in 1885, age 25, the amount of the dividend allotted in 1890 was $13.43; 1895, $18,-37; 1900, $19.71; 1905, $19.07.

Q.—That increases at the various ages till at the age 55 it runs up to $49.10? A.—Yes.

Q.—I mean the dividends for 1900 were larger than they were for 1905? A.—Yes.

Q.—Is that accounted for by some? A.—A slight change that took place in the system of allocating the dividends some few years ago.

Q.—With regard to those issued in 1890, I do not find that there is the same difference between 1900 and 1905 as in those issued 5 years earlier? A. No, the change made affected the older policies. Under the system which originally obtained years ago I think it unduly favored those old policies, and the change made to the present basis was done gradually without drastical change, on the basis we had in operation for some years passed.

Q.—You have also given us for some ages policies issued in 1895, dividends for 1900 and 1905? A.—Yes.

Q.—And the same way for policies issued in 1900 and dividends received in 1905? A.—Yes.

Q.—And this is the same for 20-payment life? A.—Yes.

Q.—And this is for 20 year endowment? A.—Yes.

Q.—What is this? A.—Those are some examples of the ten year accumulation dividends paid in those various years under the different plans.

Q.—That is you have taken year after year, 1885, 1886, 1887, 1888, 1889, 1900, 1901, 1902, 1903, 1904, and 1905, those are the years of issue, so that they would come down in each year, down to 1905? A.—Yes.

Q.—This is 15-year dividend period, similarly prepared? A.—Yes. I think it would be well to change the term, we call them accumulation policies on our records.

Q.—What about the term? A.—The terms are the same; we use the term accumulation in our company; deferred dividends is used by a great many companies.

Q.—You use cumulation here? A.—Yes; they are referred to, generally speaking, during the investigation, as deferred dividends, and it would be less confusing if the word deferred dividends was adhered to.

Q.—In these tables they mean the same thing? A.—Yes, perhaps it would be well to change it.

Q.—What is this? A.—This is 15 years dividend, result from the 15-payment life plan on policies issued in 1890, maturing in 1905.

Q.—These are results? A.—Those I think you have read before.

Q.—And these are also some results? A.—Yes.

Statement just referred to filed as Exhibit 168.

Q.—This is a statement which has been prepared in your office, I think, memo. re 1904 business, not taken in 1904, $429,527, what does "Not taken in 1904" mean, does it mean policies written in 1904 and not taken up? A. —I cannot tell you without reference to the blue book. That is the not-taken business in the year 1904, whether written in 1904 or written in the previous year.

Q.—Business that fell due to be taken in 1904 but was not? A.—Some of it perhaps fell due to be taken in 1903 and was supposed to be taken and then finally was not.

Q.—That went off through lapse in 1905, $514,775? A.—I suppose that is a similar item, it is differently expressed.

Q.—That would not be taken, that would be after the payment of one premium, not continued, to use the expression you used a while ago? A.—I have not seen this.

Q.—I would like to have that verified? A.—I would be pleased to verify that along with those other figures you asked for.

Q.—Assuming the figures to be verified so that you need not come back for it, that is out of a total apparently of $5,017,988 of new business done in 1904? A.—I suppose so.

Q.—The not-taken is a little better than 8 per cent., the lapse or discontinued 8 per cent., and the total is said to be about 19 per cent. on the total amount written? A.—I fancy those figures would be about correct, but I have not had an opportunity of verifying them.

Q.—I will leave that with you for verification? A.—Very well.

Memorandum re 1904 business just referred to to be verified by Mr. Macdonald and to be marked as Exhibit 169.

Q.—You have furnished an answer to a requisition, some proofs of loss, and this is the claimant's statement? A.—Yes, sir.

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—It seems to be rather elaborate, there seems to be a good deal required? A.—Not too much, sir, I think, it is very simple; those are really questions, most of them, from the policy, none of the questions difficult.

Q.—I want to call your attention to this, under the policy what has to be done is to prove to the satisfaction of the Association the death and the cause thereof, and also the age of the insured unless previously given? A.—Yes, sir.

Q.—These proofs seem to call for a great deal more than that? A.—We have to have proofs of interest; the claimant, irrespective of whether it is expressed in the policy or not, must prove his or her interest to the estate, and this is partly for that purpose, and this is partly to prove the death.

Q.—Partly to prove the cause of the death and partly to prove the age of the insured; I do not know that it is conclusive at all, but I should have thought a good many af these questions are without those requirements, for instance the name and address of the doctors who attended or prescribed for the deceased during the last year prior to the death or since he took ill, that is rather outside, that is not in connection with the death or cause of it? A.—It might be, sir; he might have been attended at death by one physician, and he might have been attended six years prior to the death by another physician, and perhaps the physician who attended at death might not be able to make known the cause. We have frequently cases of that kind arising, and we have to refer back for the purpose of statistical information to ascertain the cause of death.

Q.—What do you think of this question 8: "Have you read the policy and the conditions thereof; did the deceased violate any of the conditions of the policy"? A.—With the majority of policies probably that clause might be stricken out, but there are certain policies which are conditional and it is necessary for us to know whether the man violated any of the conditions of the policy which hastened his death. We have policies which contain a suicide clause, for example.

Q.—You say that might as well be stricken out? A.—For a great many of them, but not for all of them.

Q.—You have a physician's certificate or affidavit, the undertaker's, then agent's confidential statement, and then the claimant's statement to which we have already referred? A.—Yes. Of course I will admit that in the physician's statement many of the questions are not essential so far as the proof of the claim is concerned. It is information we desire to obtain for statistical purposes.

Q.—Don't you issue an indisputable policy? A.—After one year the large majority of policies we issue are indisputable.

Q.—I forget whether it was you or the managing director spoke of, I think it was you, who spoke about the preparation to get your reserves upon the statutory basis, and about what you were doing in respect of the business since the statute was passed? A.—I think that was with the manager yesterday, probably.

Q.—Did you hear what the managing director said with regard to making use of the three per cent. reserve to equalize in respect of the other reserves? A.—I did.

Q.—As an actuary can you agree with that? A.—Well, yes, it is not material from what source your reserves are supplied so long as you have in hand a total necessary to comply with the Government requirements. However, I am not saying we are following that procedure or justifying it.

Q.—Will you tell us please what plans you are taking, just as you have been doing in respect of the computation of reserves since the statute was passed? A.—We commenced really before the statute was passed, in 1896 anticipating possible changes in the Act, and placed all our business issued then on a three and a half per cent. basis, and when the statute was passed we then deemed it advisable, the Board and managing director acting upon my own recommendation, adopted for the new business thereafter written a three per cent. basis of valuation for all new business; so far as old business is concerned we have not as yet done anything, it still remains on the 4½ per cent. basis. I may say we did contemplate a good many years ago commencing to value on a four per cent. basis, on that old business, but we did not consider under the circumstances it was expedient to make any change. I hope we may in the near future take steps to place that business on at least a four per cent. basis.

Q.—In respect of business written before 1896 you are carrying 3 per cent. reserve? A.—Yes.

Q.—From 1896 to 1900, 3½ per cent.? A.—Yes.

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—1900 to 1906 you are at present carrying 3 per cent. reserve? A.—Yes.

Q.—Is that with any intention or any expectation that the aggregate of these three will equal the aggregate of all reserves on 3½ per cent. under the statutes? A.—Incidentally that had some bearing upon it in my own mind; but let me say further, if it does, it does not work any detriment whatever to any policyholder either old or new. I want to emphasize that in view of the remark the manager made which was capable of being misunderstood. No matter what basis the Government require us to adopt we can adopt any other basis we like and deal with our policyholders on that basis or on a different basis, and in an equitable manner, at least according to our judgment of what is equity and fairness.

Q.—As a matter of fact in respect of these policies written since 1900 upon which the reserve is computed at 3 per cent. have not you guaranteed the reserves up to the full three per cent? A.—We have, and slightly in excess of that on certain plans.

Q.—Take a policyholder whose policy has been written since 1900, you have guaranteed him the three per cent. reserve, how can you possibly make use of that to ameliorate the unhappy condition of the 4½ per cent. man? A.—We have a total accumulated fund, we may call it what we like, and it may be reserve, it may be surplus, we have part of that at 4½ and part at 3½, and part of it at 3; the Government stepped in and fixed what is a purely technical and arbitrary standpoint of solvency; so long as we are able to comply with the standard of solvency that is all that the law requires of us; they do not determine from what source this surplus fund may arise; that does not preclude us with our policyholders in carrying out, as we are now doing, our old business on a 4½ per cent. basis, our 1896 to 1899 business on a 3½ per cent. basis, and our new business on three per cent. basis, and treating all equitably according to our own rules. By the time we have to pay that three per cent. reserve, which we are guaranteeing, on our 15 and 20 year dividend policies we will practical have none of that old business upon our books; that old business is gradually getting less for the older years, and 15 or 20 years from now there will be practically none of the business written prior to 1896 upon the books of the company.

Q.—Then, if I understand, you treat the statutory requirement in respect of reserve as a mere matter of satisfying the Government as to your solvency? A.—Of course that is what it is, but I say this, we do contemplate placing that old business on a 4 per cent. basis; I will not say I will ever recommend anything higher, but I do not think anything higher is necessary.

Q.—You would justify that as a matter of contract and as a matter of expediency—supposing the statute requires you to put all your reserves at once upon a 3½ per cent. basis, if you did that by maintaining on some of the business, the new business 3 per cent. and with respect to the other 4 per cent., so long as you were able with your aggregate reserves to comply with the Statute upon your whole voume of business you think you would be complying with the law? A.—Yes, providing we could do it and carry it out consistently; I may just mention that you have suggested the idea of the Government compelling us to do such a thing at once, as was suggested in 1899; that was the principal cause or reason in my mind which caused me to recommend to the Board of Directors the placing of our new business on a 3 per cent. basis; I regarded it would be an extremely dangerous thing for our Company or any Company with a very large accumulation business to be compelled arbitrarily to change its basis of valuation from a 3½ to a 3, or as was suggested at first in 1899 from a 4½ to a 3½ basis, and compel Companies to pass a dividend from six, seven or eight years to their policy holders. It might under certain conditions send the Companies into insolvency where there was a large accumulation of business where financial conditions were unfavorable at the time; I regarded it as an extremely dangerous position for any Company to be to permit itself to be placed.

Q.—Your idea is that you satisfy all the conditions of the Statute if you have upon the whole an aggregate reserve computed upon the Statutory rate? A.—I consider we satisfy the requirements of the Statute, and we work no injustice whatever to the policy holders either old or new, whether we make any change whatever on the basis of the old business or not.

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—Then it would equally follow that if you had the new class policy holders with reserve calculated upon the 3 per cent. basis, would you think you were carrying out you contract with the old policy holders whose reserve was only upon the $4\frac{1}{2}$ basis if you dealt with them upon that basis? A.—I think we would. I think there is one of the difficulties now which confronts us; I suppose it has confronted other Companies in dealing with these deferred dividend policies. We have guaranteed to the policy holders at the end of the period a certain reserve of the total accumulation of surplus. If they value upon a higher basis how are they going to adjust their accounts and carry out their contracts at the end of the time? It is a legal question which must receive our consideration, and it probably has received consideration in other companies.

Q.—Then I think you have here given us what we were speaking of this morning, a detailed statement of the profits and losses on the realization of securities? A.—Yes, although I have not seen it since it was copied.

Q.—This debit side, that means sold at loss, written down, sold at loss, written down, written off, that includes the $40,000 odd written down on the Head Office building? A.—That is what that item is.

Q.—And it includes certain agents balances written off? A.—Yes, though I would explain in regard to this the item is not a large one, and when the entry was put through I gave special instructions then when these items were adjusted that this account would be credited with the amount, and the proper expense account debited, and a considerable portion of that item has already passed to the proper expense accounts; the other will follow no doubt in regular course.

Q.—To analyse these the amount of loss on sales seems to be $9,933.86, and the amount written down or written off $66,675.40? A.—I have no doubt these figures are correct, but there is a cross entry in that.

Q.—I think that has been allowed for, because that amounts to $76,629.26, whereas the total on this is $84,000? A.—Well, I do not just remember; there is a cross-entry somewhere.

Q.—The profit statement shows Calgary Bonds, Canadian Pacific stock, and certain agents balances which were written off, repaid, besides the sale at profit of certain of your mortgage securities, that is a total of $119,320.49. Most of your losses seem to have been in respect of real estate which I suppose you had acquired under mortgage? A.—Yes.

Q.—And had to dispose of? A.—Yes sir.

Q.—I see very considerable writing down there in the case of Beatrix, is that right? A.—Yes, that is property in Montreal.

Q.—That seems in view of the amount it stood you, $22,104, to be very considerable writing off? A.—How much?

Q.—$6,104.34? A.—I fancy there was considerable writing off.

Q.—That reduced it to $16,000? A.—Yes.

Q.—Was that writing off in consequence of re-valuation or how? A.—Re-valuation made by our own Superintendent of Real Estate who recommended that should be done.

Q.—It is suggested to me, and I accept the suggestion, that I should ask you your view as to the desirability of the ordinary mortgage investments for the purposes of insurance funds investments, and what your experience has been in respect of that class of investments? A.—Well, as far as our experience is concerned we have lost some money on mortgage investments.

Q.—You do not of course stand to make anything except your principal and interest? A.—No; we have lost certainly more money on mortgage investments than we have on other classes of securities. Comparatively our holding of mortgage securities and investments have in the past been large, they have been perhaps more than half of our assets. I do not remember the figures now, and the losses that have been incurred in connection with mortgage investments have been greater comparatively than any other classes of securities.

Q.—What circumstances tend to bring about loss in mortgage investments? A.—Financial depression such as existed in the nineties, when borrowers were unable to meet their obligations, and properties fell into the hands of the Company, perhaps did not come into the hands of the Company for some considerable time till there were considerable accumulations of interest and other charges, the property perhaps in the meantime running down and not in as good condition as it originally was, and as of

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

course you have suggested while there is a possibility of a loss there is never the possibility of any addition accruing from appreciation unless it should come after the property has passed into the hands of the Company and is disposed of at a profit, that I think in the aggregate is very unlikely to occur.

Q.—Are mortgage investments cumbersome to handle? A.—They are; they yield a good rate of return, but they are very much more cumbersome than other classes of securities and entail a great deal more expense in attending to investments of that class, which, of course, to a very considerable extent will offset the extra rate of interest that is secured. On other classes of investment, there is a wide range, of course, securities which should be available, which will afford Companies excellent opportunities for investments, and are handled much more economically than the mortgage investments, and if judicious investments are made there is a possibility of appreciation in values which will in all probability equal, in fact likely exceed any depreciation that may occur. My own opinion is that a Life Insurance Company should aim, not at having any undue proportion of its assets in any one security but that the assets in investments should be distributed in different classes of securities, so that in the case of any commercial stringency or financial stringency in would not be unduly affected by the depression which might prevail in one or more particular securities. A distribution of the assets in different classes of securities to my mind is eminently desirable.

Q.—You have spoken of the rate of interest, you would not be able to earn the rate of interest which we have been told is about 5 per cent., that you are earning now if all your securities were of the class of those more recently acquired; you need the high interest upon the old class of investments to keep up the general rate? A.—We have not many very old investments of that class; our mortgage investments, which you speak of as the high interest ones, are all comparatively new, that is five, six, seven or eight years, probably the volume of mortgages that are more than seven or eight years old is not very large.

Q.—I will alter the form of question, you need that class of investment, as interest is now upon the other class, to maintain the general rate? A.—You have to make a considerable reduction from the rate of interest earned on mortgage investments to cover the expense of handling those funds.

Q.—And with all that? A.—With all that you will have perhaps a little higher rate than you will on certain other classs of investment, at the same time there is a large range of securities, bonds, and debentures, which can be purchased to pay a good rate of interest entailing little or no expense in handling, and in my mind, as I have said before, where the investments are judiciously made, less liability to loss and greater chance of appreciation in value and a profit to the Company. I do not wish to be understood as in any way advocating the principle of life Insurance Companies buying stock for the purpose of a profit or speculating or indulging in anything in the nature of speculative securities; I think that would be absolutely wrong; but there are securities which present themselves which we know have inherent worth and which are likely to appreciate in value. We have held some of them contrary, unfortunately, to the provisions of the Act, which we had to dispose of, which were most excellent securities, and which I am satisfied had we been premitted to hold would have paid us not only a very high rate of investment in the meantime, but would have afforded us in the course of a few years a large surplus appreciation.

Q.—Are you in respect of the more modern class of investment receiving an average of 5 per cent. interest? You are not, are you? A.—When you speak of more modern class, do you speak of bonds and debentures?

Q.—Yes. A.—No, you are not, because they are such high class securities you cannot get a high rate of return, but there are many of those securities that will appreciate in value and you will get your return in that form.

Q.—You are maintaining the rate of interest at 5 per cent.? A.—We did last year, we had some little extra last year, it was not a normal year.

Q.—Would you be able to do that if it were not for the comparatively high rate of interest you receive upon your mortgage investments? A.—We would not. But then again we

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

would not have the high rate of expense to contend with, and we must offset the one with the other. I don't know whether I should repeat the interview we had with the Finance Minister on the subject, but I was present with a deputation when he expressed his views.

Q.—I do not know the circumstances which you have in mind. if it were a public occasion—? A.—It was a deputation of three of us that waited upon him on this very subject regarding investments, and we presented a draft measure there which had been prepared for his consideration, and of course the previous deputations had appeared before him, and this was a small deputation; I think it was perhaps two years ago; and we discussed the matter in a very frank and easy manner with Mr. Fielding, and he then expressed himself as not in sympathy with the present Act and the present classification of securities. He went even further than some of us expected he would. I cannot say whether those are his opinions to-day or not, but he regarded the present classification of securities in the Act as all wrong in principle; as he pointed out, there are securities that are good to-day that may not be good as a class some years hence; a new class of securities may arise that is to-day unheard of, with the development that is going on in the scientific world, bringing in new industries, and new securities brought on the market which may prove profitable and safe investments for Life Insurance Companies. He further pointed out you cannot take any one particular class of securities, whether mortgages or bonds and say that all these securities within that class are good or bad; you may find one class where there is a much larger proportion of good securities in which a Company may invest than there is perhaps in another class of securities; but there are none the less good securities in that class which the Company might safely and properly invest in. I may have enlarged a little on his remarks, but I am still confining myself to the principles which he expressed. He expressed the limitation which should be imposed upon the Companies somewhat in a similar form, in regard to perhaps certain classes of securities he would impose no restriction at all—I speak of government and Municipal bonds and mortgages—but in regard to other classes of securities, we might say stocks of an industrial or mercantile nature, he would impose a restriction upon the purchase of the securities of that class, whether of bonds or stocks, limiting the purchase of those securities until the Companies or the concerns were established going concerns paying a fixed rate of dividend say of 5% for a term of five years, the object being to insure the investment of the Company's funds in going, established paying concerns, and to prevent underwriting—I think he used the word—or the investment of Life Insurance funds in the securities of new or untried enterprises. I may say further that Mr. Fielding at that time while he did not commit himself to it at all—I do not think he expressed himself as even willing to grant it, he was willing to consider the proposal to permit the Life Insurance Companies to invest a portion of their funds in foreign securities, the United States securities. He was willing to consider that, but he did not go any further upon that point. I said to Mr. Fielding that his views I think would meet entirely the views of those that we represented. The only change that I would suggest in regard to the limitation he suggested would be that the rate of interest and the term for which that should be payable was too high, and he said to me, what will you suggest? I said make it 4% for three years, instancing two or three Companies, well established Companies, I took for example the case of the C. P. R., which Mr. Fielding I think admitted we should have the power to invest in the stock of that Company. I said it has been paying 4% for many years, and under the restriction that is suggested we would not be able to invest in the stock of the Canadian Pacific Railway for a further term of five years when it will have so appreciated in value that it will render it undesirable as an investment; and Mr. Fielding gave some little acquiescence, and there was some further discussion. The deputation then withdrew with the idea that we should work out a new draft bill along the lines that he suggested and we did so, and it was submitted; but owing to Parliamentary duties which were imposed upon him of a rather onerous nature, he was not able to take the matter up during that session, nor during the subsequent one.

Q.—I think we have heard something of that already from Mr. Fitzgerald, and we have seen the draft

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

bills, and had an account of the meetings of the deputation? A.—I think Mr. Fielding's views are absolutely sound on that question. The whole question in my mind must come back, and the responsibility and the responsibility must rest on the management of the Companies, and their good judgment as to what is a sound or unsound investment. I do not believe by legislation and by restriction you can prevent unsound investments. The greater the restriction is placed upon Companies as to the classification of securities it simply means a narrowing of the field of investment and driving a larger amount of Insurance funds into narrower channels, which must mean a lowering of the rate of interest to the ultimate detriment of the policy holders.

Q.—I gather you do not approve of investing the surplus of Insurance Companies in enterprises which have not as yet demonstrated their value, their permanency and their earning value? A.—I would not invest any of the funds of the Company in any trading concern—when he spoke of restriction it was perhaps more of trading, manufacturing, industrial and other classes of Companies.

Q.—It would not seem to be appropriate that an Insurance Company should put itself by the possession of securities into the position of having to manage an industrial or commercial enterprise? A.—Very undesirable, I should suppose.

Q.—And it would not seem desirable that those funds should be made use of for the purpose of developing speculative enterprises, you would not agree to that? A.—Oh no, not for the purpose of developing them, certainly.

Q.—I am speaking of it now in the sense in which you used the word underwriting a little while ago? A. —I speak of underwriting where it is a new enterprise, an untried enterprise; you might issue bonds or securities of a well-tried enterprise, and you might underwrite those bonds, you might underwrite a Dominion Government bond.

Q.—My attention has been called by Mr. Hellmuth to the words of this section; the provision of the section is that "such valuation shall as to policies issued prior to the said date, etc., (reads down to the words "3½ per cent. per annum"). Does that modify at all in your view the opinion you expressed to me a little while ago as to aggregating reserve? A.—Not in the slightest.

Q.—Why? A.—There is nothing in that in conflict with the opinion I expressed.

Q.—The provision seems to be specific? A.—I do not recognize any conflict in the provisions of the Statute and the opinion which I expressed.

Q.—The provision seems to be specific that the reserve shall be computed in respect of certain old policies at a certain rate at a certain date? A.—That is the Government reserve, that is not our reserve; we are not obliged to value on the Hm. table. We can adopt any table we choose.

Q.—You mean for the reserve which you establish as between yourselves and shareholders? A.—Quite so, we can adopt any table and any basis of valuation we may see fit as between ourselves and, not our shareholders but our policyholders, but the Government has indicated that as the Government standard of solvency. Many of the American Companies do not use the table the Government require and if you are doing business in a half a dozen different countries you cannot conform with all their tables in the operation of your Company.

Q.—What gifts or subscriptions has the Confederation Life made to objects which were outside strictly speaking Insurance objects? A.—I do not know that they made any.

Q.—We find among your answers something about the National Sanitarium? A.—Yes sir.

Q.—What was that? A.—That was a contribution to the Sanitarium at Gravenhurst.

Q.—That was how much? A.—$500 a year I think for three years.

Q.—We have another which is spoken of as a contribution or subscription to the Rifle Range? A.—I am not responsible; I do not disclaim responsibility.

Q.—One of the subscriptions may conduce to life and the other may conduce to death. A.—They both might tend to the conservation of life.

Q.—What were the circumstances of the subscription to the Rifle Range? A.—There was a letter received from some officer of the Association appealing for a grant for that patriotic purpose, and it was considered by the Board and approved. I think as a matter of fact when it was first considered I happened to be away, and I think the matter was re-

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

ferred to me for an explanation as to what the objects were.

Q.—And the Board decided to give how much? A.—$100 a year.

Q.—For how long? A.—There was no time fixed.

Q.—How long has it been paid? A.—I think it is four years.

Q.—Are those the only matters in respect of which the funds of the Association have been devoted to objects which could not strictly be called Insurance or investment of Insurance funds? A.—So far as I know.

Q.—You do not know of any other? A.—No.

Q.—Then there is one other subject I want to ask you just a question about; do you call upon those who give you mortgages as security for your funds lent to them, to insure their lives with you? A.—No, we offer them that form of investment, at least in borrowing money on mortgages we offer that system of taking, if they so desire, a policy of life insurance, which we hold as collateral to the mortgage, but we impose no obligation; a man is quite free to take a form or make the mortgage without life insurance at all.

Q.—Is there any substantial volume of that sort of investment on foot? A.—I think there is a considerable volume of it on the books of the Company.

Q.—Could you give me an estimate of how much? A.—I could not.

Q.—Will the taking of a life insurance policy ever turn the scale in favor of the investment; will you lend more readily upon a piece of land on mortgage if the borrower insures his life? A.—I do not think that that is done. I am not charged with the responsibility of the investment, and I cannot just say what will enter into the mind of those considering it, that is the manager and the Finance Committee, but I should say no, the investment is considered upon its merits

Q.—Apart altogether from any question of life insurance? A.—Yes, apart altogether from any question of the insurance; if we did not think the mortgage in itself was good we certainly would not take it because there was a policy of life insurance with it.

MR. SHEPLEY: My learned friend Mr. Nesbitt hands me a memorandum of certain authorities, all of them English, which he has collected upon the subject of the propriety of gifts like these gifts to the Sanitarium, and I have said to my learned friend that I will put that before the Commissioners, so that the authorities may be considered.

(Memorandum of authorities referred to filed as Exhibit 170.)

170. Q.—Have you ever considered, and are you able to express, an opinion as to the desirability of a practise like this in respect of participating policies, assuming that they are only distributable in periods of five years, or supposing they are upon the deferred dividend method—do you see any objection to the profits apportionable to every policy being as you really do deal with them now as a matter of book-keeping, ascertained every year—do you see any objection to that being required to be done? A.—No, I do not.

Q.—How would you view a provision requiring each Company each year upon making that allocation to notify the policy holder of it? A.—I would not regard that with favor.

Q.—Why not? A.—I think it would entail a large amount of clerical labor upon the Companies, a large amount of expense, and would not answer any really good purpose. Where the dividends are set apart, as we do, on our accumulation policies we can inform a policyholder as to the standing of his policy now under the present system at any time, approximately, as to what his dividend is, and we would have no objections to agreeing to do that, leaving it an entirely voluntary act.

Q.—If a statement were furnished to the policyholder from year to year, particularly in the earlier years, when the accumulations would be small, there would be some dispute on his part, he would have mistaken notions as to what the surplus would likely result in, and I think it would be a very large expense and result in a large amount of business passing off the books; I think it would increase the lapse rate.

Q.—You are aware what the result of the labors of the Committee in the State of New York have been; one of the results has been to compel annual distribution? A.—I am aware of that.

Q.—That would be in your opinion a matter of disadvantage to the Company, in the view you have just told me? A.—I certainly would consider it. I consider it unwise legislation to compel annual dividends. The experience of annual dividend Companies have not been uniformly satisfactory, I know as a matter of fact it has not; I know of one Company at least which adopted the deferred dividend system entirely owing to the dissatisfaction which ex-

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

isted with their annual dividend results some years ago.

Q.—Did they avoid discontent among their policyholders? A.—I don't know whether they did. We do not admit there is disappointment with deferred dividends, but there is disappointment with five year dividend policies just as much as ever there could be with deferred dividend policies. There is disappointment with annual dividend policies. The conditions which have obtained during the last ten or fifteen years which unfavorably resulted in the reduced dividends, meant a disappointment to the policyholders whether he was on the annual or the deferred dividend system, and where that disappointment comes not once in five years or once in ten, fifteen or twenty years, but where it comes perhaps every year, or twice or three times within a series of four or five years with disappointment and irritation I think it is likely to be greater and more detrimental to the business and to the policyholder's interest.

Q.—May we not assume that the disappointment at the end of one year will be multiplied by fifteen at the end of 15 years if you keep it until then? A.—Oh, well, but the other is much more worrying on the constitution extending over a period of 15 years.

Q.—No, if the man is dissatisfied he may leave one company and go into another or discontinue altogether? A.—He cannot do that without loss to himself, a man who is assured in a company for a number of years.

Q.—But in the one case the man knows at the end of the year whether he is pleased or not, in the other he waits until the end of 15 years and pays out his money before he finds out that he is dissatisfied? A.—Not at all He cannot find out at the end of one year. Any man who is going to come to the conclusion at the end of one year is a very unwise man and he cannot leave at the end of one year and take out another policy to his advantage.

Q.—I quite appreciate that, but if a man embarks on the scheme of insurance with exaggerated ideas of the profits he is to get, is it not as well if his mind is to be disabused at all, that it should be as early as possible? A.—Unfortunately it is not disabused under the annual policy as early as possible. He may go on for 10 or 15 years. He may have irritations in the meantime or may find another irritation at the end of 15 or 20 years under his annual dividend policy.

Q.—You said he would probably drop his policy in the earlier years, that is what I was following up. Upon the whole is it not just as well that the man should ascertain the position he actually occupies just as every merchant does by way of stocktaking every year in respect of the profit on his policy? A.—He does not ascertain his position necessarily at the end of every year. He cannot tell what his experience is going to be.

Q.—He can tell what his experience has been if he is told by the company what his policy is worth to him for that particular year? A.—Well, if a man wants the annual dividend policy, I would have no objection to giving it. We have no annual dividend policy but we have no objection to writing a man a five year dividend policy. We have never issued an annual dividend policy, but we have considered it. We would just as soon write a 5 year as a 20 year policy if a man wants it, although I believe myself there would be less cause for dissatisfaction under the deferred dividend as under the other, or just as little, but that is a matter of absolute indifference to the company.

Q.—It is not an indifferent matter to you, I take it, as to whether or not you should issue annual dividend policies. That you do not want to do? A.—We do not want to do it because we do not believe that the experience with annual dividend policies would prove satisfactory.

Q.—I dare say not, but neither does the experience with deferred dividend policies prove satisfactory? A.—We believe it would be more unsatisfactory and we believe that the 5 year dividend policy will answer all practical requirements so far as the distribution of dividends are concerned. I may say, we have considered annual dividend policies and always came to a negative decision on the subject. If we thought a large volume of business could be written under annual dividend policies and they would prove attractive, we would be only too glad to adopt them, despite any extra clerical labor that they might involve.

MR. LANGMUIR: What objection would there be to an interim annual dividend and a final quinquennial dividend? A.—We had that system in

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

operation in the earlier years of the company and we abandoned it. It was complicated and cumbersome and then when a man had drawn a part of his dividends during the currency of a quinquennium and came to the end of the five years and found that a very small sum was coming to him, it was sometimes represented that that was the dividend that that man got for five years, and that placed the company in an unfavorable light, besides the man himself remaining under a misapprehension and being dissatisfied.

Q.—Would not an interim dividend in that way reduce the amount of funds you had and take it out of your hands? A.—Of course it would reduce them to the extent of your out-go for dividends in that way, but that would not be a consideration so far as the company is concerned.

MR. SHEPLEY: Your dividends where they are taken at quinquennial periods are not usually taken in the shape of cash, are they? A.—I think perhaps latterly a good many of them are. They are sometimes taken by bonus addition. Many of them by reduction of premiums extending over the ensuing five years.

Q.—Supposing you were to keep from year to year an account in your books with each policy so that if a policyholder came to you and said, now what is the condition of affairs with regard to my policy, you could tell him? A.—We can do that now. We are doing it to-day, after five years. We keep no account until after five years.

Q.—After that? A.— We have an account.

Q.—But only from five years to five years? A.—Well, we can approximate. I have all the factors for the computation of the interim years.

Q.—Would it be feasible to keep an account with each policy in that way? A.—Quite feasible. It entails some labor, but we practically do it now, except in this way, that we only make the balance every five years, but suppose you came in at the end of the seventh or eighth year, I know all the factors which go to make up the dividends for those intervening years and I can make that computation and give that man the result under his policy.

Q.—Then has anybody as a matter of fact ever come and asked you for that? A.—It has been asked for.

Q.—And did you give it to him? A.—We gave it to him. In some instances, we have given it to him. Some years ago we did not give it because we had not our books in the form which we now have, to give those figures, but for the last few years I have brought the books into such shape that I am pretty well able to give it. They are not quite complete.

Q.—You do not in any case refuse to give it? A.—I do not know. I cannot say myself. I do not answer those letters, but the instructions are generally to give the information where we can give it. We may have refused it for reasons; I do not know; but we have given it.

Q.—Do you know of any instance of insurance companies who do what I put to you first, that is send a statement each year to the policyholder showing how his policy stands? A.—I think some of the American companies do that, I am not aware of any in Canada.

Q.—I am told the North Western Mutual and the Pennsylvania. A.—Yes.

Q.—They are strong companies? A.—They are indeed.

Q.—And they are not apparently getting any weaker by reason of doing that. A.—No, probably not.

Q.—Do you know of any important insurance convention or conference which has taken up that idea and approved of it, recommended it? A.—No, I cannot say that I know of any convention. I may have read the proceedings of some convention where that was recommended, but I cannot for the moment recall it.

Q.—I am told it was recommended by the conference of Governors and Commissioners of Insurance at Chicago? A.—Recently?

Q.—Yes. A.—I don't remember it.

Q.—Is that a representative body? A.—Well, they are Insurance Commissioners; they are not all men skilled in the business of life insurance, and I do not know that they are the most competent authorities. Many of them are good men and many of them again are absolutely unqualified to pass an opinion.

Q.—Do not the qualified men in that body, as in every other body, really carry the sense of the convention with them as a matter of practice? A.—Perhaps as a general rule they may, but not always.

Q.—Do you know of any European country where that is the law? A.—

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

No, unless it is in Germany. I am not sure though.

Q.—I am told that that is so now in the Republic of France. A.—I think I have heard that one of those, either France or Germany, I was not sure which. I had heard that something of that kind was required and I know that German laws are very stringent. I do not know whether they permit deferred dividend policies in Germany.

Q.—Would it in your view be desirable that there should be a spur upon the insurance company to be economical in respect of its affairs when it has revealed the position of affairs to its policyholders? A.—Yes, no doubt it would be. If we can put a spur on them to be more economical it would be no doubt desirable.

Q.—Then this is your form of loan agreement when you loan upon policies? A.—Yes.

Q.—I see the third provision is that on default of payment of any interest or of any premium on the policy the whole of the said principal money shall at the option of the association become due and payable. Would it not be possible to pay this instalment of interest so as to keep the principal from becoming due, assuming that the surrender value would warrant it? A.—We do that. If we cannot collect the interest. We use every endeavour to collect the interest and press as hard as we can and if we fail then we adopt that as a last resort

Q.—You do not accelerate the principal if you have got enough in hand to prevent it? A.—It is added to the principal of the loan, most certainly. I presume that was your question.

Q.—I mean you do not call in the principal? A.—No. That is a regulation in that loan agreement that I doubt if we ever exercised more than once or twice. I think I do remember an instance a good many years ago where we had trouble with a policyholder who defied us on a certain matter, in which I think it was exercised. I cannot remember another case.

Q.—It enables you to accelerate the principal by reason of default of payment of interest merely. A.—We do not do that so long as there is value in the policy.

Q.—You have, however, reserved to yourselves the power to do it. A.—Yes.

Q.—Then in the 8th paragraph of the agreement you say that at the maturity of the policy or upon the surrender thereof the association shall receive credit on the final settlement of the policy for the full amount of the principal and interest and it agrees with the assignor, that is the policyholder, that such surrender of the policy as set forth in Clause 5 of this agreement shall not bar the right of the assignor to the surrender value if any, or to revive the policy under the conditions thereof and under the rules of the association, if the assignor apply for such surrender or revival of said policy according to the terms thereof? A.—If you will let me see the clause of the agreement.

Q.—The first sub-paragraph of paragraph 8, what about that? A.—That at the maturity of the said policy the association shall receive credit?

Q.—Yes, the first sub-paragraph of that. It requires the policyholder to apply for his surrender value, to make an application? A.—That is at the maturity or on the surrender it says, the association agrees that such surrender of the policy shall not bar the assignor to the balance of any surrender value.

Q.—If he comes and applies for it. A.—Well, of course, that is presumed in the previous paragraph, that he applies for it.

Q.—If he does not make any application to you, what happens? A.—If he did not make an application within the proper time the policy would lapse, it would be forfeited, the equity.

Q.—In other words you could pay yourselves back the loan and keep the balance if you were strict about it? A.—Unquestionably under the terms of the policy and agreement we could.

Q.—How does that work out in practice? A.—Well, you see we do not lapse a policy because of non-payment of principal, or interest, so long as there is value in the policy, and under a premium paying policy the increase in the accumulations, that is the reserve, carries the policy and would always keep the principal and interest even if the interest were not paid, within the value of the policy, so that that condition could not apply on that class of policy. Under a paid-up policy if the interest were unpaid and added to the principal, the whole in time would equal the value of the policy and we would have to exercise our rights and lapse that policy for non-payment of principal and interest.

Q.—Then take paragraph 5, on default of payment of interest the policy

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

shall forthwith at the discretion and option of the said Association become surrendered to the Association. It is notwithstanding that surrender that he can have any balance that is left of the surrender value if he comes and applies for it? A.—Within the time required by the policy. We are governed then by the conditions of the policy.

Q.—Do you hold him to that supposing there is a substantial surrender value over and above the value of the loan? A.—We have held them to that in the past, yes.

Q.—I understand that you have similarly where there has been no application for a paid-up policy, apart altogether from any question of loan, where under the condition of the policy there has been no application for a paid-up policy after the premium has been allowed to remain unpaid, I understand that in cases like that you have also enforced the contract? A.—Well, that bears upon the point I mentioned to you the other day and I would just like to add to what I said then, that if there has been any inconsistency in our policy or practice in the last few years in that respect, it has been due to an oversight. In 1902 when I brought in that recommendation which the Committee and the Board finally approved of, as I intimated to you, I was away from the office that year a good deal on account of my health, which was in a very bad condition for some months. In addition to that I had a very large amount of labour imposed upon me in connection with the preparation of tables and so forth for use in our foreign fields, and through some oversight I was not seized of the fact that the Board had approved of my recommendation. I had a misapprehension as to what was done until a comparatively short time ago and that is the reason that that matter has not been properly dealt with and dealt with as was intended and as it will be dealt with in the very near future. If there has been any inconsistency in our action in the past—that is we have granted paid-up policies recently in a few cases under that provision while we may have refused them in a few others, it was due entirely to those circumstances which I have mentioned.

Q.—Have you put yourself into communication with those whom you did refuse? A.—As I stated, we have done nothing. We probably could not locate those whom we have refused. We may know a few of them. We have done nothing in the matter. We propose to deal with the whole subject immediately. It was a pure oversight that occurred in the way I have mentioned, due to my absence from the office or through press of work. I certainly either did not know of it or carried away a misapprehension of what the ruling of the Committee was until quite recently, when I happened to be turning up the records, and found that the Committee had approved of my recommendation. I always was in favor of automatic paid up insurance.

Q.—And are you endeavouring so far as yon can to remedy the cases in which applications have been made which you have refused? A.—We have done practically nothing, because of the press of business in the last few months, since the matter came under my observation, but I can assure you that within the very near future we will remedy any cases that we have refused which may come to our knowledge and we will cover a good many that have not applied and who are entitled to it, anyway since 1902. The matter will be fully dealt with. The recommendation was made of course in good faith and similarly approved and if had not intended to have acted upon it it would never have been granted, never have been approved. The action has been a matter of regret to me since I discovered it. It is one of those oversights that will occur in the conduct of business.

Q.—I suppose your recommendation upon the subject made in 1902 and the minute of approval, are on record? A.—They are, yes.

Q.—And you can, perhaps, let us have a copy of that? A.—I can. (Loan Agreement filed as Exhibit 171).

MR. KENT: I would like to ask Colonel Macdonald for his opinion as to Government insurance, whether the Government could not carry on the life insurance business to greater advantage than private companies A.—I do not think the Government could. I do not see how it is possible for the Canadian Government to carry on the business of life insurance more advantageously than can be done by the companies. I do not think it could carry it on by any means as advantageously as is done by the companies. The only case of Gevernment Insurance that I know of that would correspond to what is suggested is that of the New Zealand Government In-

surance Department. It is carried on as a regular life insurance company. They have their managerial staff, their staff of agents, their head office, their branch offices and all the paraphernalia the same as a regularly established company. Alongside that is conducted the business of the Australian Mutual. It is a much larger company, more economically conducted and with better results to its policyholders than the Government Insurance Department of New Zealand. I know that my general statement is correct and I could have had the figures comparatively prepared; I think I have sufficient material to give some data on that question if so desired. But I do not believe that under the conditions which obtain in Canada that the business of life insurance could be carried on at all successfully by the Canadian Government. The Government to open an insurance bureau and solicit insurance without the intervention of agents and without the attempt to secure business on the same plan practically as secured by regular companies, would be an absolute failure and I do not see how a Government Commission could secure business in competition with companies on any more favorable terms and that so fas as expense and economy of management are concerned and invest their funds more profitably, more safely, to yield a better return to their policyholders than is done by a well established, well conducted life insurance company.

Q.—I certainly fail to see why it should be more or even as expensive. The Government would certainly not require an army of canvassers. A.—They would do no business then.

Q.—It seems to me that all insurance men start out with the conclusion that a man must be insured and that any means that can be adopted to compel him to insure his life are reasonable and justifiable. The same reasoning might be held by a tailor; he might say every man is bound to have two suits of clothes a year and if he does not come to my store and buy them I am justified in sending someone to compel him to come. I see no greater reason why a man should be compelled to carry a life insurance policy than to do any other good action to support life. The reason given for the increase of expenses is generally laid to the door of the canvasser; he must get the risk coute qui coute, no matter what the cost, he must get the risk. A man who is able to pay the premium and is not insured is a target for all the insurance canvassers who know him. They think it is justifiable and are prepared to go to any expense. Rebates have grown out of that practice. I myself have been a subject often enough to know all about it. Inducements have been offered to take a policy in this or that company simply to enable the canvasser to get ahead of his neighbors, and the increase in expense has grown from this practice. There is not insurance business enough to go round and that is why we see the stockholders in some companies waiting 10 years before they see a sign of a dividend. It must be that they have an anticipation of a good time coming. It is not unknown to anyone acquainted with the insurance business that there are agents who lay themselves out to get say two risks a year. The commission on those two risks is sufficient to pay them for their exertions for the 12 months. In such cases as those it is quite clear that the rate of commission must be excessive. Insurance companies have acknowledged that they are helpless in the way of reducing expenses. Expenses have increased not only amongst the agents but in the office management. They are increasing all around. The loss is taken from the participating policyholders. We do not hear of any possible loss to the stockholder nor to any other party. It is always the participating policyholder who is called upon to bear the brunt of the loss. I am very glad to hear the opinion that you have expressed, because I myself am far from being an authority in insurance matters; but it certainly seems to me that the Government of Canada was in a better position to do an insurance business than any company existing or than all of the companies combined. I consider that it is only part of the duty of the Commission to find out whether such a state of things is practicable, feasible or desirable, and that is the reason for my question. A.—Mr. Kent, I must most respectfully dissent from one portion of your remarks where you intimated that the aim and object of life insurance men—I presume you intended both the management of the companies and the agents—to attempt to place insurance—

Q.—In that I was thinking solely of the canvasser. A.—I must respectfully dissent from that. I do not

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

deny there may be good agents and bad ones, but I do not admit and I must respectfully dissent on behalf of the agency staff of my own company and of all the other companies in Canada, from that remark. Agents are zealous, energetic and put forth their best efforts, in the large majority of instances, honesty and intelligently, as it is their business to do, to induce people to insure. There may be cases where they overstep the mark, but that is not the rule, that is the exception, and I certainly must therefore on behalf of the agency staff, so far as that remark applies, respectfully dissent. We do not deny that the expense rate is high. We do not deny that there are certain evils attached to the business. I think it is doubtful if you can find any large business with extensive ramifications in which some pernicious growth or evil does not obtain and life insurance, unfortunately, has not been entirely free. That I am prepared to frankly admit, but I am not at all clear that the evils have not been to a very considerable extent magnified. I would simply, so far as the expense rate is concerned, reiterate what has been stated here before, that it has been very largely the result of the unfair—in the sense of paying too much for the business —competition which was introduced by the three large American companies into Canada. If those companies had never entered the Canadian field we would not be in the condition, so far as expenses are concerned, that we are in today and I feel confident that even under the present condition of things there will be a decided improvement. In the United States, speaking to representatives of the smaller and more conservatively managed companies a week ago when I was there, they all expressed themselves very favorably on that point, that the extravagant ideas as to large volume of business at any cost now current in those large companies, that the smaller companies would be decidedly benefittd by it, and as they said to me, some of them, you will also feel the benefit in Canada, and I have no doubt that we will, although once the expense rate has been settled at a high mark it is very hard indeed to lower it. So far as Government insurance is concerned, I may say that I do not think that any opposition—I am only expressing a personal view—I do not think any marked opposition would be offered by life insurance companies to the establishment of a Government insurance company or bureau. I think the feeling of the life insurance companies would be that it would demonstrate the position that they have maintained in a very few years, that the Government could not successfully operate an insurance company to compete with the companies, unless it did as I have suggested, as the New Zealand Government Department has done, maintained a regular life insurance organization with all the accessories which pertain to the same. Take, for instance the Post Office Insurance in England. They have utilized the post office and telegraph officers as agents all over the country. They offer to insure people on very favorable terms; there is every facility for any person that wishes. He can go to any post office or telegraph office in Great Britain and get the necessary blanks and all the instructions that are necessary to enable him to place a policy on his life. The business that is done is a bagatelle. I cannot give the figures; I would not attempt to do so off hand; I have not seen them for some years; but I know that they amount to a mere bagatelle and any insurance company, whether it is a Government insurance company or a company in Canada, conducted on any such basis, where it is proposed to open an office and invite people to come and insure their lives and we will give you the advantage of the lowest rate of premium without the cost of agency expenses, would have to close its doors in the course of a very few years, if not indeed, a very few months, if they were wise. I have not in my mind the very slightest hesitation on that point. While I do not justify the high expense rate, we must bear in mind that while the end does not justify the means, yet by reason of these great efforts that have been put forth by the management of the companies and by the agents, and though high expense rates, perhaps too high, have resulted, thousands of people have been insured in Canada upon whose lives there never would have been a dollar of life insurance if it had not been for those means that were used. People will not insure their lives voluntarily. They will not go and place a policy on their own lives for the benefit of their wife and children as they will go and insure their own household goods. You have got to go out, as it was said by one of our directors at our last annual meeting, and

31st day, May 29th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

club them to insure their lives. It can only be done by the means that have been used in the past. I feel satisfied that no other means will prevail.

(At 4.45 adjourned to 10.30 a.m. on Wednesday, 30th May.)

THIRTY-SECOND DAY.

MORNING SESSION.

Toronto,
Wednesday, May 30th, 1906.

Examination of W. C. MACDONALD continued:

MR. SHEPLEY: Q.—You were going to verify a memorandum about the not-taken business and the lapse business? A.—I gave it to my clerk and it has not been verified yet, and there are those other statements you asked for which will be handed you later. I did not understand you wanted to put them in first thing this morning.

Q.—I have to ask you a question or two this morning about a particular instance: this is a policy of the Confederation Life, and you observe it insures the life of Annie Eliza Maycock, the premium is $53.50 a year, payable for 15 years? A.—Yes

Q.—There is to be that premium paid annually for 15 years? A.—Yes.

Q.—Upon the ending of the period what happens according to the face of the policy? A.—The insured is entitled to receive the value of the policy in instalments as an annuity certain extending over a term of years, ten or twenty years.

Q.—$50 a year for 20 years? A.—Yes

Q.—That was the right of the insured if the insured kept the premiums up for 15 years? A.—Yes.

Q.—And if the insured died during the 15 years, what then? A.—The face value of the policy was payable.

Q.—That would be $1,000 would be payable upon death occuring within the 15 years? A.—Yes.

Q.—But at the end of the 15 years there was no $1,000 payable, but $50 a year for 20 years? A.—Yes, I think that is in accordance with the terms of the contract.

Q.—You will observe that on the back of the policy is printed, "Sum assured," and the figures filled in $1,000? A.—Yes, sir.

Q.—Would you think that now an accurate statement of the purport of the policy? A.—Yes, because we gave them $1,000 insurance, we promised to pay them $1,000 in the event of death; it was an assurance for $1,000 even if there was not one dollar payable to her if she survived the term.

Q.—You would not think that likely to mislead, or would you? A.—It might; it was not intended to mislead and of course I cannot say whether it did or did not.

Q.—It is not so plain that a way faring man might not make a mistake in it? A.—He might rest under a misapprehension if he did not read the policy.

Q.—He might think he was entitled to $1,000, and it is a profit-bearing policy? A.—Yes, he might think that, I do not deny, but I think if the contract is read it is sufficiently clear to indicate to him that such is not the terms of the contract

Q.—Yes, if he reads it and understands it the contract is plain upon the face of it, no doubt? A.—Yes.

Q.—This is the notice which was sent by the company upon the policy maturing? A.—That is another policy.

Q.—No, the lady married in the meantime; this is a different name, but the same policy. This notice is addressed to her at Winnipeg, 5th June, 1905, and she is informed that the accumulation period under the above policy ends on the 10th July next. "We beg to advise you of the following benefits or modes of settlement, any one of which you may select subject to the policy being then in force, and to the proviso herein stated: subject to the due surrender and delivery of the policy to the Association to receive its entire value either in cash, $828.39; second, paid-up policy payable at death without participation in profits for $1,332; or third, a life annuity of $70.08." There are certain restrictions upon taking the paid-up policy, there must be satisfactory medical evidence of insurability furnished? A.—The usual rule in such cases. Or, "The policy may be exchanged for an annuity bond guaranteeing payment of $50 yearly in advance for 20 years, and the accumulated dividend applied either first, in cash $148.38, or, in the purchase of an additional annuity for 20 years, $10.50." "You are requested to complete form attached hereto entitled 'Benefit selection,' signifying which benefit or mode of settlement you desire to select and return it with-

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

out delay." I observe that you do not put as flowing naturally from the contract, the annuity, you put it by way of option? A.—Well, I think you will find that that follows the options on the back of the contract. We endeavor to make all our policies in that way, though in policies issued some years ago perhaps that was not the case, but the options in the policy I think will altogether correspond with the options in the slip.

Q.—I am not at all saying they do not in a sense correspond, but the first proposal here is in the policy that "At the completion of its accumulated dividend period, should this policy not have been previously terminated or commuted for a paid-up policy, the insured will be entitled to select any one of the following benefits or options, provided that if the third, fourth, or fifth benefit is selected the policy shall be legally surrendered to the Association, and also in the fifth benefit that a certificate of good health satisfactory to the Association shall be first furnished. First: To withdraw in cash the accumulated surplus and receive in addition thereto an annuity certain for 20 years of $50. Second: To apply the accumulated surplus in the purchase of an additional annuity certain for 20 years—the annuity of $50 is put as the first? A.—You mean the order of the options in the policy does not correspond with the order of the options in the dividend slip?

Q.—Yes? A.—That is quite possible. In later years subsequent to the issue of that policy our forms of policy in regard to the options were amended slightly. These slips were prepared, of course, only a few years ago when these policies commenced to fall in and they were prepared to conform as nearly as possible to the majority of the policies, we could not have a slip printed to cover just each case.

Q.—Is this a somewhat unusual policy? A.—Yes, I think perhaps it is.

Q.—Did your company issue many of them? A.—We only issued it for two or three years.

Q.—And would there be a large number of them or only a very small number? A.—Not a very large number of them, I could not say how many.

Q.—Could you say within a hundred or two? A.—We commenced to issue them in December of 1889 and we issued them through 1890 and 1891, perhaps a couple of hundred each year, it might be more. It might be 300, but I could not say without looking up the records.

Q.—Have you been made aware that the insured under this policy protests that she has always supposed this to be a policy which insured her at the end of the period $1,000 with the accumulated surplus? A.—I did not know anything at all about the matter until two or three days ago, Friday or Saturday, when the inquiry was made from yourself, and up to that time I had no personal knowledge of the matter. I may have heard the case mentioned in the office, but the correspondence which was furnished was not conducted by me, though in my name.

Q.—You have now become aware that the insured says the Winnipeg agent assured her that she would be entitled to $1,332, which is the amount of paid-up policy she could get on giving evidence of health at the end of the 15 year period? A.—I did not know that; I have not had time to read the correspondence between our office and the insured, nor have I seen the letter—I have not had an opportunity of reading her letter of complaint. Mr. Dawson mentioned to me the other day that she claimed that representations were made to her that she would be entitled to that sum, but I understood it from him that was not the estimated paid-up cash value she would be entitled to—

Q.—The paid-up policy value? A.—I did not understand him then.

Q.—I will read you a clause from the letter which has been sent to me: "Last July an endowment policy"—he calls it endowment policy—"an endowment policy of my wife's came due (15 years for $1,000 with profits). She was assured over and over again by Mr. Worsley, their agent at Winnipeg, (when it was taken out) as it was coming due that on the proper date in July she would receive $1,332; whereas when it came due the head office in Toronto insisted on her taking a cash settlement $828.59 or a life annuity of $70.08"? A.—Those representations were made to her by Mr. Worsley?

MR. NESBITT: I was just going to draw your attention to some observations that have been made on similar matters before Commissions. This is the language used by Lord Somerset in a somewhat kindred mat-

ter: "This Commission is not named to adjudicate upon a case brought befort it, but to inquire into some alleged evils and to suggest such remedies as may appear advisable. No one will, I believe, have any just ground of complaint that he has been unjustly treated by the Commission. The publication of the evidence as taken from day to day would be most unfair, as many statements are made to which no reply would appear until after an interval of many days. If the room were open to the public it would be necessary previously to know what a witness intended to say in order that the parties affected by the evidence might be summoned to hear and reply. Our object is to ascertain what remedy can be applied by law and to existing evils. Incidentally the evidence may affect some persons, and it will be our duty to take care that they shall have an opportunity of vindicating their character." "They ought not, as I understand it according to the ordinary rules by which justice should be administered to blast a man's reputation forever, perhaps to ruin his prospects for life, without giving him an opportunity of either defending his conduct or palliating his conduct." This statement I have no doubt is from a reputable gentleman writing to Mr. Shepley, but are you to inquire into the character of all the agents? There are two sides to every story, and I have no doubt this agent probably has his story. It is most unfair to him to ask Mr. Macdonald, I suggest to Mr. Shepley, about statements read from a letter written by a person who gets it from hearsay again from a woman, and to have that go upon the record as being the conduct and statement of an agent which cannot possibly be of any public interest, or of value to this Commission for what it is intended to inquire into, and might work irreparable harm to this agent. The company cannot be concerned in the matter unless it is brought before it in some way of an attack to make them responsible for the act of an agent. It is not suggested, as I understand by my learned friend Mr. Shepley, that the policy itself is not perfectly plain upon its face. I do suggest that whether there is much or little of this that it is certainly not within the purview of the Commission, and is most unfair, is absolutely against all the principles of natural justice so far as this third party is concerned, who cannot be here to meet an attack upon him in the dark as it were, and without any possible opportunity of vindicating himself.

MR. SHEPLEY: My learned friend has mis-conceived the purpose for which these questions are being asked. If it is proper for me to say so, I quite agree with the general principle which my learned friend has submitted, that this Commission is sitting not for the purpose of trying individual holders, but for the purpose of ascertaining whether there are abuses or possible abuses in the present system for which a remedy may be found. The object with which I am bringing this before the Commission is this: This is a policy which upon the face of it is no doubt, to a person who reads it with care, a perfectly plain contract, to a person who understands and is able to construe a contract it is perfectly plain; it is however, as I shall submit to the Commission, unfortunately possible to be a vehicle of mis-information by reason of the form of the endorsement upon it. I do not know that it is a matter of very great moment, an isolated instance of this sort, as under the circumstances Colonel Macdonald has stated it does not appear to be a widespread evil, but this Commission will find perhaps it necessary to suggest that there should be great care in describing by the endorsement upon the policy the nature of the contract. I am not trying to take away the character of the agent, I am trying to get from the witness the possibility of perhaps an agent himself being misled, the possibility of the form of the endorsement lending itself to a mis-conception on the part of the policyholder; it is for that general purpose, and for the purpose of reaching a general conclusion in connection with matters of this sort that I am asking the question. I put myself entirely upon the ruling of the Commission.

JUDGE MacTAVISH: I think you are entirely right, Mr. Shepley, in asking the questions, as it may become very necessary for us to consider the matters you are eliciting before we make our report.

MR. NESBITT: I am not making any objection on behalf of the company, and in view of what Mr. Shepley has said his early questions were quite right and proper, and perhaps that is unavoidable by reason of the circumstances; but it does strike me

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

as infringing all the rules of natural justice if you are to take—all of you have had experience enough to know the number of cranks that are abroad, and people who say afterwards they have been misled, this, that and the other way by agents, and the agent ought certainly to have the right to have his say—

MR. SHEPLEY: My point is not that the agent has been doing anything wrong.

MR. NESBITT: What has to be guarded against is this: already dodgers are being distributed of sworn evidence before the Royal Commission, with an emphasis on the Royal. Supposing some rival agents, to Mr. Worsley took that very form of quetion in the extract and printed it as the sworn evidence; Mr. Worsley has not the slightest opportunity to be heard; if he comes here I understand under your ruling you would say go to ——

JUDGE MACTAVISH: If he comes I think not.

MR. NESBITT: I understand you won't allow the company to be heard.

JUDGE MACTAVISH: We will allow an agent against whom any charge or suggestion of impropriety is made to be heard on his own behalf. He will have access to the Commission in some way, if he considers it necessary or so desires.

MR. NESBITT: And he comes from Vancouver at an expense of two or three hundred dollars.

JUDGE MACTAVISH: That is another question.

MR. NESBITT: I am quite content not to make any objection to the early questions. I think any reputable company would at once modify that. Unless Mr. Shepley had said somebody had misconceived it I should have thought that was absolutely clear. If somebody has misconceived I would suggest it is most unfair to these people and to these agents—let Mr. Shepley or myself put himself in the position of this gentleman and have his name dragged into it, or any one of you—no opportunity to be heard, and these little personal squabbles dragged in, it does seem a very hard case.

MR. SHEPLEY: May I suggest that if the gentleman whose name has been mentioned, or any other person whose name has been mentioned will take the trouble to write a letter I will see that it is laid before the Commission.

MR. NESBITT: How is that to be communicated? Am I to write and tell him? I may say I have never met Mr. Worsley.

MR. SHEPLEY: I do not know whether you will write him or not. As my learned friend read from the case which he cited, in arriving at a result, which is a legitimate result for this Commission to aim at, it is almost inevitable that somebody here and there shall be, ad interim at all events, left under a cloud; that is a necessary evil inherent in the conduct of a Commission which is calculated to bring about a great good. The old saying is, "You cannot make an omelet without breaking some eggs." There is no desire on my part, I need hardly say, to involve the name of anybody in connection with the general principle. It may become unavoidable for the purpose of illustrating the principle, but beyond that it is not my duty to go, and I do not desire to go. I say now publicly, if a letter is sent to me upon the subject I will see it is laid before the Commission.

Q.—I was just pointing out to you, Colonel Macdonald, that the figures which are said to have been mentioned to the insured do coincide with the amount of the paid-up policy? A.—Said to have been mentioned by Mr. Worsley?

Q.—Yes? A.—When were those statements supposed to be made by Mr. Worsley?

Q.—It is said in the letter "The statements were made over and over again as it was coming due?" A.—Mr. Worsley, let me say, is one of our reputable agents, and I am perfectly satisfied that Mr. Worsley never made any statement that was not according to fact. Mr. Worsley could have no knowledge of the value of that policy until after the 5th June. The notice that was sent out would not be sent to Mr. Worsley, but would be sent to our cashier at Winnipeg for direct attention. It would be within the limits of possibility that our office there might hand that to Mr. Worsley to deliver, hoping that he might take advantage of the opportunity to solicit a new policy on the party's life, but Mr. Worsley could not have had any knowledge of the matter until after that slip was handed to him. I do not know that it ever was handed to him, but I am quite satisfied of this that Mr. Worsley never represented to Mrs. Shuttleworth that the cash value of

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

that policy was $1,332; I am absolutely satisfied as to that.

Q.—Then there is a letter addressed to the Manager of the Confederation Life here from Woodstock—the people seem now to live in Woodstock. I have not seen whether a reply was made to this by the company or not, but in this letter the statement is made. "The policy is for $1,000 with interest, which according to your own office reckoning a year ago left $838.09, deducting from that $53.50 with interest of $14.82, accrue 78/100, equals $69.10, will leave $759.29. In discharge of this they send a cheque for $149.32?" A.—I cannot understand what statement or reckoning she alludes to of a year ago.

Q.—A year before there was a loan? A.—Yes.

Q.—There was a loan on the 16th April, 1904? A.—Have we not furnished you with the correspondence in that case?

Q.—Yes, you have furnished me with certain correspondence, not any correspondence in connection with the loan itself; if you would just have that looked into and see whether there was any estimate or any loan value put upon the policy at that time which would bear out that; it does not seem to me it is probable at all? A.—I am quite sure we furnished you with all the correspondence; probably we did not go far enough back, in the year subsequent to the date of the first letter there you will have all the correspondence between our office and our Winnipeg office and the insured.

Q.—That is all in connection with the maturing of the policy? A.—If there were any other letters I think they will be there too.

Q.—It does not seem to me likely that there was a cash value or surrender value or loan value put upon the policy as stated here but just see, so that we may have it straightened up? A.—I will.

—Mr. Shepley filed the policy and notice of the options as exhibit 172.

MR. HELMUTH: I understood yesterday that you stated that the loading for all-life policies without profits was on a basis of 8 per cent. plus one dollar; was that what you said? A.—That was what I said. It occurs to me that perhaps that is incorrect on account of a change in the non-participating rates that were made 6 months ago; I allude to the rates that were adopted in 1900. That statement is correct relative to the rates of 1900.

Q.—That is apart from the more recent rates at all events the rate was 8 per cent. on the net premium plus $1? A.—That was my statement furnished me by my clerk made up in the memorandum, and I have no doubt it is correct; I did not verify it myself.

Q.—What was the idea of 8 per cent? A.—We charged what we thought would be sufficient to cover expenses and small margins for profit or safety.

Q.—That would be the idea? A.—Yes, we calculated as closely as we could. It is a matter of good judgment.

Q.—Would it be the expenses irrespective of such saving as you might effect upon mortality or interest, or would you allow for that? A.—We take into consideration the fact that there would be a possible saving from mortality when determining the premium rates, that is particularly a non-participating rate, where we have to of course figure more closely. It does not matter in a participating.

Q.—Then I would be correct in saying that when you figured on this 8 per cent. and $1 you were also calculating that you might make or would make a saving in mortality and something in the way of gain by interest? A.—We take all those factors into consideration.

Q.—So that the gross premium is not based on no saving in mortality for Hm tables or no saving of interest? A.—We take into consideration that there may be a saving from those sources, that there may be also losses from those sources, and I try as far as in the exercise of my judgment is possible to balance the one against the other. It is a matter of judgment based upon past experience. It is not an absolutely reliable guide, though perhaps an approximately reliable one for the future.

Q.—Your original premium, taking the same age I took in another company, at 40 your original premium on all life there was $26.80? A.—Yes.

Q.—And then that premium was actually increased, not lessened by the new rates? A.—Possibly, I think they varied.

Q.—That one at all events was increased to $27.05? A.—Apparently.

Q.—Those tables were tables adopted, the last I have shown you at the Managers' Association? A.—All the Canadian Life companies adopted them.

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—There was a consideration, was there not, by the Managers' Association of those rates? A.—There was a consideration by the representatives of the companies.

Q.—And the rates are practically identical throughout all the companies? A.—Throughout the majority of the companies, not all the companies.

Q.—Are there some ten companies who have adopted that? A.—I don't know how many adopted it I could not say.

Q.—Don't you know the number of companies that composed that Association? A.—No, I don't know the exact number; besides that, all in that Association did not adopt it. The action of the Association does not bind any individual company; it has got to be a matter of unanimity of action and agreement between the companies.

Q.—But it does happen that a number have adopted the same rates? A.—Yes.

Q.—That particular premium is not even loaded with 8 per cent. and $1, if you take Hm. table at 4½ per cent.? A.—I think it must be loaded more than that, if you take that table?

Q.—I think not? A.—Yes.

Q.—$24.65 is the net premium for that amount? A.—I would not say, I have not the tables before me.

Q.—You are down now, at what, 3 per cent? A.—The reserve at 3 per cent.

Q.—All business written after 1900 is written on 3 per cent., is it not? A.—We put the reserve on the 3 per cent. basis.

Q.—$24.65 is the 3½? A.—Yes, you were speaking of the 4½?

Q.—Yes, I was wrong, but you are reserving at 3? A.—Yes.

Q.—So that you do not even at 3½, if you calculate there; you add 8 per cent. and $1 to the net premium, that would make $27.62? A.—Those rates were calculated on the 4 per cent. premiums, not the 3½ per cent.

Q.—Why? A.—Wait a moment till I think.

Q.—I am speaking of the rates adopted in October, 1905? A.—In the absence of the data I would not undertake to say; my memory does not serve me.

Q.—You would not be computing in October, 1905, on a reserve of 4 per cent. when your business after 1900 had to be written at 3½? A.—The premiums may have been computed upon a different basis to that which we reserve.

Q.—Would not that be rather an extraordinary thing to do? A.—It is not uncommon.

Q.—To compute premiums on a different basis from the rate of interest that you are obliged by law to compute the reserve upon? A.—Under the present Dominion law which was referred to yesterday it was pointed out that we were compelled to value all our old business after 1910 on a 4 per cent. basis. Now, all those old premiums were computed on a 4½ per cent. basis; how are you going to comply with the requirement that you indicate? We cannot vary the premium that was computed many years ago.

Q.—I am asking you the premium that was computed in 1905, which certainly could not apply to business written before 1900; you computed a premium in 1905? A.—We adopted a premium then.

Q.—That surely would not be applying to business that had been written before 1900? A.—No.

Q.—It would be to future business? A.—Yes.

Q.—If that is taken even on 3½, which is the Government rate you will see you have not loaded even 8 per cent. for expenses and $1, you have only loaded 8 per cent. and 50 cents? A.—That is on the 3½ premium basis, that may be quite true. Where I may have been in error with regard to that—I don't know that I did state those premiums were computed on 3½ basis, but I think it is more than likely they were computed on a 4 per cent. basis. In the absence of the exact data before me I would not answer the question definitely.

Q.—If you had taken into account in your premium the possible saving in mortality, as you have spoken of, and the possible gain in interest your expenses could not very well run over that 8 per cent. and 50 cents without requiring money from some other source to keep that policy going? A.—We hope they will not.

Q.—That is to say your expenses should not be any more than 8 per cent. and 50 cents? A.—We hope the expenses will be made out of the provision we have made for them plus any anticipated savings from these other sources, and leave some small margin, as I mentioned a moment ago, for safety.

Q.—Have you calculated what your ratio of expenses to premium income is for the first year of the business? A.—No, I have not.

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—That would be a very simple matter, according to the statement you put in here the expenses on the first year are shown to be $222,360? A.—Yes.

Q.—And your premium income, first year, was apparently $211,389? A.—Yes, but why take those figures.

Q.—I am going to take them all, both first and renewal? A.—I think you had better confine yourself to the other statement.

Q.—Why? A.—Because that is the proper statement to make the comparison with, that is the revenue statement; it takes in the adjustment at the end of the year.

Q.—You say in this statement the receipts from first year premium income? A.—Yes.

Q.—The other statement does not show the first year premium income? A.—No, it is only the difference there.

Q.—From that you cannot see that? A.—It can be obtained from our annual statement or from the Government Blue book, the proper income for the year.

Q.—I am taking just the first year; you differentiate between the first and the renewal in your statement? A.—Yes. While those are the premiums actually received they are not all the premiums actually earned for that year.

Q.—I did not say they were, but they are all the premiums actually received for that year? A.—Yes.

Q.—I do not say that is at all high; I merely want to get at the facts. That would show 105 per cent., the percentage of expenses to first year premium income. I mean only for the first year that would be right? A.—I won't question your figures. I will take them for granted.

Q.—Now your second year expenses, taking the figures there are $177,879, taking away the first year, making your total expenses for the renewal and first year business $400,239? A—Yes.

MR. SHEPLEY: When you said second year expenses, you meant renewal expenses?

MR. HELMUTH: Quite so, thank you. Now, your renewal premiums amounted, again according to this statement, that is all but first year, to $1,174,130.50 so that the percentage of expense to renewal income is 15 per cent.? A.—According to those figures.

Q.—And those figures are taken from your own records? Making the average ratio of expense for the entire business, first year and renewal, 29 per cent. Would you doubt that that is your expense? A.—I have not considered the figures. It can be done in a moment.

Q.—You are somewhat interested, I suppose, in the ratio, the percentage of expense to premium income in a company? A.—Yes, we are interested in it.

Q.—And I think the managing director said that that was 29 per cent. the other day? A.—No, I don't think he did. He may have concurred in that.

Q.—That is what I mean. As you have explained by reason of matters, it has gone up? A.—Yes.

Q.—Going back to 1895 it was 24.7 and now it is 29 per cent.? A.—Yes.

Q.—Will you tell me, if the percentage is 29, how you are going to make a policy carry itself that only provides for 8 per cent.? A.—In the first place I am not prepared to admit that the expense is 29 per cent. It is something less than 29 per cent. You have not, in arriving at those percentages, made a proper adjustment and taken into account the outstandings at the beginning and end of the period under review. If you have done so, if those computations had been made on what would be a more correct basis the percentages would not in the latter year at any rate, be so high. However, I am not caring a great deal about that, though I just wish to point it out, that those percentages are not quite correctly computed and for the last year would be something less.

Q.—If you took a series of years you would then get the business that would come in overlapped from one year to another? A.—In order to make that computation you should take the premiums received for the year, add to that the outstandings at the end of the year, deducting the outstanding at the end of the previous year, treating your expense in a similar manner and then your comparison will be a little more correctly made.

Q.—Then if you took 10 years and took all premiums received in 10 years you would surely get very near the average of expense? A.—That would depend again upon circumstances. It would depend whether the average business done from year to year was about the same and whether the outstandings at the end of each year were

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

about constant. Now, in this particular case they are not. The business the last year or two has been considerably increased and the outstandings are bigger, so that in dealing with it in that way you get a comparison that is rather unfavorable for the later years.

Q.—Supposing that we take the last three years, 27, 27.5 and 29 as the ratio of expense to premium income, we are not very far out then? A.—It is not very far.

Q.—If that is so will you then tell me how a policy with a premium loaded with only 8 per cent. can meet that 27 per cent. we will say of expense? A.—You have not taken into consideration the savings that will arise from mortality.

Q.—Yes, I thought you had taken that into consideration in fixing your premium? A.—We have, quite true.

Q.—So you have nothing more to gain from that? A.—I probably misapprehended your question, Mr. Hellmuth. We recognize in computing the premiums that there will be a saving from that source, but in doing that we do not adopt a lower net premium. We use the table premium, adding a smaller sum for loading than we would add had there been no anticipated saving from interest or from mortality. I perhaps misunderstood the nature of your question and you perhaps misunderstood a little the manner in which we computed those premiums.

Q.—But, Mr. Macdonald, on that policy, if the expense is anything like 27 per cent. you would require not $2.50 roughly for loading but you would require about $7? A.—Yes, but Mr. Hellmuth, you are disregarding those other items of anticipated saving. If we had no savings I quite admit, if there were to be no savings from mortality, if there were to be no margin on the interest rate, then your contention would be correct, no doubt.

Q.—And you would have only provided for about 1/3rd of the expense ratio, if you had not those two items? A.—Yes, but we are certain to have those two.

Q.—I say on the supposition that if you had not those two you would want to provide about 3 times the loading that you have provided? A.—Yes, but I am unwilling to let a suppositious case of that kind go on record without emphatically entering my protest because of the wrong conclusions that may be drawn.

Q.—Quite so, I am not going to do that at all; I want to ask you if this is not so. You have taken the savings in mortality and the savings by way of increased interest to make very nearly 20 per cent. of a loading, you have considered them as equivalent to nearly 20 per cent of a loading? A.—We may have done so, we could not estimate exactly what they would be.

Q.—You see how it would be if 27 is required and you have only provided 8. You allow for mortality and savings on interest nearly 19 per cent? A.—Well, perhaps so. The savings from mortality in the early years is a very large factor The saving from interest too is fortunately at the present time considerable.

Q.—But they are bearing about 2/3rds of the load according to that particular form of policy? A.—According to that particular illustration and the way you put it.

Q.—That must be so? A.—That must be so there, the way you are putting it.

Q.—Then you would not expect very much more profit after you had taken that out? A.—We expect some.

Q.—Then if that is the case of course you would expect a great deal more profit on the participating policies on everything in which the loading exceeded the non-participating? A.—Yes, that is on the same plan.

Q.—If your results justified that expectation? A.—The results on that particular plan policy.

Q.—Now do your results of the participating justify that idea that you have saved the additional amount put upon these policies by way of loading for expenses or profits over and above the amount that you put on such a policy as this? A.—The experience of course is that the profit arising from the participating policy must naturally be higher than on the non-participating policy, taking this all life plan you are speaking of.

Q.—I am not asking you that. You load this policy with $2.50 we will pay in round figures. You load some of the participating policies with, we will say, $12.50 or whatever you like, I do not care what it is. You have $10 extra for loading in that participating policy, the one I am suggesting by way of illustration. Is that all to earn profits and does it? A.—Oh yes, it is all in surplus.

Q.—Now you, I think, said yesterday that profits have not been so great in recent years there has been a decline in them? A.—Comparatively to the premiums paid.

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—And as to the estimates made? A.—Well, I think we fully demonstrated that yesterday.

Q.—What? A.—That the profits have fallen very considerably below the estimates.

Q.—Will you look at this 20 year endowment in, I think this is the old rate book? A.—That is the 1893 book.

Q.—There taking by way of illustration this policy, 20 year endowment for $1,000 at age 26, you estimate that at the end of 20 years as being worth $1,473; it was so estimated then? A.—I daresay it was. I did that.

Q.—You did it yourself? A.—Yes.

Q.—Then we have got to headquarters. I want to ask you whether on that policy what you call a quinquennial dividend applied at all, that is did you divide profits every five or ten years or credit profits? A.—You are speaking of a particular policy?

Q.—I mean to say a policy on that plan? A.—On the 20 year endowment plan with a 20 year deferred dividend?

Q.—Yes? A.—Did we allot the dividends to that policy every 5 years?

Q.—Yes, or every 10? A.—Every 5 years.

Q.—So that policy would every 5 years or perhaps in its earlier period, every 10 wasn't it when they were first written? A.—No, you are speaking now of a 20 year dividend policy. As I endeavoured to explain yesterday, we at the end of every 5 years, dating from the issue of the policies, compute and apportion to all policies issued in the years in which the 5 year periods then elapse, we compute and allot to them their share of the surplus for the previous 5 years according to the experience of the company. In the case of the quinquennial, of course that dividend is paid out to them. In the case of the others it is carried and improved until the end of the term.

Q.—Was that policy, that method followed in policies written on that plan as far back as 1885? A.—Yes.

Q.—You have practically carried out the same policy? A.—We have never changed, except this that formerly we allotted dividends every 5 years at fixed periods. That ceased in 1887 and from that time forward the policy formed its own quinquennial period.

Q.—I am going to take a policy that was written on that particular basis. I will give you the number of the policy and you may look at the name and if it is necessary I will give the name. Policy 16,604. That policy was written on the 20 year endowment? A.—But that is not a 20 year dividend policy.

Q.—Yes, it is. You wrote a letter about it? A.—My clerk wrote the letter I would like to see the facts. 20 years was the term of the endowment, but it is not a 20 year dividend policy.

Q.—Yes, pardon me, it is? A.—No, I think not. It could not possibly be and that notice go out.

Q.—Look at the amount of the premium? A.—The amount of the premium would not settle the matter. I say that is a 20 year endowment but not a 20 year dividend policy.

Q.—Well, it is a 20 year endowment and you will see that that is just the same dividend, that I suppose would be right? A.—No, the same premium would be charged no matter what plan it was on.

Q.—Now that policy, the first dividend on that was not for 10 years as you will see. I take your notice, "I have the pleasure of informing you that the first dividend covering a period of 10 years—written on June 15, 1895, the policy being taken out in 1885—that the first dividend covering a period of 10 years will be applicable on such and such a day." You remember the fact that some policies were payable only every 10 years? A.—Yes, we issued policies with 10 year periods, 15 year periods and 20 year periods as well as our 5 year period policies.

Q.—Now you see what that dividend was, $120.82? A.—Yes.

Q.—It can be taken in reduction or some other way but that is the dividend? A.—That is the cash dividend.

Q.—Then in 1900 there was a cash dividend of $55.70? A.—Yes.

Q.—And in 1905 there was a cash dividend of $60.72? A.—I presume so.

Q.—I have got these figures because I know they are accurate? A.—We will be pleased to confirm them from our books.

Q.—It was a $2,000 policy, the premium double the $1,000 illustration given? A.—Yes.

Q.—And the total amount received, original policy and profits was $2,237.24? A.—I assume those figures are correct.

Q.—Now according to that illustra-

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

tion it would have been $2,946? A.—Oh no.

Q.—Why not— A.—That illustration does not apply to that contract at all. That illustration that you refer to there applies to a 20 year endowment policy with a 20 year dividend period, accumulation period. The policy that you have there before you, is a 20 year endowment policy with a 10 year dividend period, subsequent dividends being distributed quinquennially.

Q.—Tell me what would be the estimated profits on such a policy? A.—We never estimated them for that form of policy.

Q.—You gave no estimates to your agents for those policies? A.—We gave no estimates to our agents for those policies.

Q.—Ought there to be a difference on the same premium in two policies of that class of $708.76? A.—There was not a difference of any such amount.

Q.—Then how was it that this policyholder only got the amount estimated there less $708? A.—But, Mr. Hellmuth, this estimate has nothing to do with that policy.

Q.—I quite understand that and I ask you to take that policy that you say this was and was there between a policy of that class and a 20 year endowment a difference of $708? A.—Between a 20 year endowment 20 year dividend period, and this illustration?

Q.—On a $2,000 policy? A.—I say no, subject to verification of the figures, assuming that these figures are correct. Now let me just explain if that policy had been issued on the plan alluded to in this illustration, that policyholder would not have received $120 in cash at the end of 10 years and a certain further sum at the end of 5 years, but those sums would have remained in the hands of the company and would have been improved by the interest earned during the remaining 10 years and by profits arising from the lapses on policies falling in, which would have made the total dividend under the 20 year endowment 20 year dividend considerably greater than the dividend there.

Q.—I want to know just how much greater you would say the leaving of the $120, which was what he got at the end of the first 10 years, would have improved that policy? A.—Well, I don't like to give statements out in that way. If you had intimated to me beforehand I would have been very pleased to have provided exact figures.

Q.—Will you give me the figures of what the estimate of profits was for just such a policy as I have shown you; that I suppose you can do? A.—We have never issued any estimates for policies of the exact class and plan which you have shown to me now.

Q.—Had you no estimates yourselves of what, when a man took a policy of that kind, he might expect to get in results? A.—None whatever.

Q.—Then what inducement was held out to an intending policyholder to take a policy of that class? A.—No inducement in the way of profits beyond this, that he would share in the profits of the class, but no representations were made to him by the company and there was no literature placed in the hands of the agents indicating in any way what those profits might be.

Q.—So that if he had taken a 20 year endowment with none of the dividends paid until the end of the 20 year, he might have expected, will you say, $708, more than he received? A.—He might have expected that, but I say that no representations were made of that kind under that policy, you are using a manual that was issued years after that and could not have applied in any way to that particular policy. If he had taken a 20 year endowment with a 20 year dividend period instead of the class of policy he did, he would have still been in the same position he was in in regard to estimates. No representations were made by the company as to what the dividends might be under those policies at that time.

Q.—Then do you say that endowment policies that were taken out in 1885, whether deferred dividend or otherwise were not estimated to return a better result than those that were taken out in 1895? A.—I will say that a better result may have been anticipated but it was not estimated and put forth by the company.

Q.—A better result though might have been anticipated because your results have been gradually getting less? A.—Well, they were for a time. I think now that they are getting better

Q.—Do you mean just this year? A.—The last year or two. Our earn-

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

ings during the last year or two have decidedly improved.

Q.—I will take another policy. This is 10 payment life. The number of the policy is 9,542. There is the name of the party. I have not the slightest objection to giving the name but I think it is better not to? A.—I don't know who he is.

Q.—The party states that he took out his policy in 1880; he paid a premium of $110 a year, making $1,100 in all to pay up, if he lived so long, his thousand dollars. He says that in 1887 when he had paid 7 premiums, he received $92 profits. That in 1891, after he had paid in the whole of his premiums, $1,100, he received $96 as profits for 4 years. That since then he has received quinquennial profits in 1896 for 5 years, after his $1,100 has been entirely paid in, $47. In 1901 $45.76 and in 1906 $48.38. Or less than one per cent. per annum on the amount paid up. Could that be possible? A.—Quite possible.

Q.—That was not a very profitable investment was it? A.—If you are going to regard it as an investment, but he has got some life insurance which is worth consideration.

Q.—But he has paid more than the whole life insurance to you, he has paid you $1,100 for $1,000 life insurance? ? A.—That might be, lots of people have to do that.

Q.—And his $1,100 is not earning now one per cent? A.—That may be. I don't see how it could earn one per cent. That is an old policy reserved on a 4½ per cent. basis. We have given him the benefit of all his surplus earnings over and above the reserve, we are earning last year over 5 per cent. perhaps; there is not a margin of more than 1/4 per cent. after taking the expenses of investment, for profit on that policy from that source. It is not possible for any limited payment life policy after it has become paid up to earn the same rate of profits as during the premium payments.

Q.—You would not expect that that money being there, $100 more than you have to pay him at death—you would not expect that money to earn one per cent., you don't think it is possible? A.—I am not going to answer the question in that form, because it is not a correct way of putting it. That policy was issued in 1880.

Q.—1881 I think it is? A.—We will assume that all dividends on that policy are paid up to 1895; he has got his dividend in 1895 and we will assume that the account is cleared. The balance in the hands of the company is its reserve value on a 4½ per cent. basis, which we are required by law to maintain. Now then the only possible sources from which profit may arise and can be returned to the policyholder under that policy are first any savings from interest earned on that fund in excess of 4½ per cent.; any possible saving that may arise from a saving in mortality which cannot be much on those old policies.

Q.—And although that individual has paid in everything to make his own policy perfectly good? A.—And has received a refund of all his excess payments up to that date. We have accounted to him in 1905 for all his surplus payments or overcharges from whatever source they may arise up to that date and we did not have one dollar more in hand on that policy on that date than the law required us to maintain. The law says to us you must set apart 4½ per cent. interest on that policy. Now you can see how much reduction is likely to accrue in the surplus.

Q.—You set apart $1,000 for that man? A.—Oh no we don't.

Q.—How much? A.—I cannot tell you without the tables before me. It would be the present value of $1,000 at death.

Q.—So that it would not be anything like $1,000? A.—I don't know his age or anything else so I cannot answer the question what it would be.

Q.—That illustration does not strike you as at all outrageous, there may be others of that class? A.—Outrageous?

Q.—I mean it is not uncommon? A.—There cannot be any other experience in limited payment life policies in any company.

Q.—Now, I dare say you saw it at the time that it came out, a table came out making a comparison; I think it was in the "World" on February 21st last, making a comparison between profits paid to policyholders and profits paid to stockholders? A.—Quite so.

Q.—That table shows the premium paid by policyholders from the years 1872 to 1905? A.—Yes, I saw the table.

Q.—And it purports to show a decreasing rate of percentage of premium income paid by way of profits to policyholders? A.—Yes.

Q.—Have you gone over it at all to see whether it is accurate? A.—It is not accurate.

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—But in the main it is not far out. I found some inaccuracies myself but they are trifling? A.—They are not very large, no.

Q.—And that would apparently show that taking 10 years from 1896 or thereabouts the percentage of premium income paid to policyholders has dropped from about 9 or 9.11 down to about between 5 and 6? A.—You don't mean the premium income paid, you mean the dividends paid?

Q.—The dividends paid in relation to premium? A.—Yes, it does show that.

Q.—And that is not inaccurate on the whole? A.—No, but it is misleading.

Q.—Quite so, I am going to ask you to explain afterwards, but that part is not inaccurate, as you say there are some trifling inaccuracies in the calculation but that is not inaccurate? A.—Yes.

Q.—Now during that period there has not been any diminution in the percentage paid upon stock? A.—No.

Q.—And it is, I think you mentioned the other day, a fact that the only amount of stock actually paid in by the shareholders is $50,000? A.—That was the actual cash payment. The balances of the capital stock was paid out of surplus, the shareholders' surplus account.

Q.—Out of profits? A.—Out of shareholders' profits.

Q.—At all events it came out of profits, it was not put up in cash by the shareholders? A.—It came out of what I said, out of shareholders' profits.

Q.—It was not put up in cash from the pockets of the shareholders? A.—We made a cross entry.

Q.—As a matter of fact they did not put up any money? A.—They did not put up the money; it came out of the shareholders' surplus. We could have paid it out in dividends to them and then made a call upon them.

Q.—There was no necessity at that time for any more capital for the solvency of the company? A.—No, I don't know that there was. It was considered a desirable thing though in the interest of the policyholders.

Q.—Why in the interest of the policyholders? A.—In 1882 the additional protection and security that was afforded was appreciated and I know was regarded by policyholders—by some at least— as an additional protection and advantage to them.

Q.—Just let me understand you. Could it be any additional protection or advantage to policyholders to have $50,000 transferred from surplus to capital, than to have the unpaid liability for $950,000 instead of $900,000? A.—The unpaid liabilities under the original capitalization of the company was not $900,000, it was only $450,000.

Q.—Well, $450,000. What advantage could it be to increase that if the company had turned the corner and was dividing that year in profits a very large sum. It was dividing in profits in 1887 to the policyholders alone $143,000 irrespective of what it was dividing to the stockholders? A.—That is quite true as to the position of affairs at that particular time in the company's history, and fortunately it has been pretty continuously true, but it would not be possible to say what might develop in the history of any company. There might be circumstances arise when the condition of the company's affairs might make the capital stock both paid-up capital stock and the uncalled capital stock a very valuable asset on the policyholders' account.

Q.—As a matter of fact it has never been in the least necessary to have that capital there for the solvency of the company? A.—It was essential in the early days of the company.

Q.—I am speaking of since 1882 or 1887, as a matter of fact it was never necessary? A.—As to the solvency of the company, no, it was not necessary; the company fortunately has always been solvent.

Q.—The reserve required by the Government while it is kept up necessitates solvency? A.—Yes, but it does not mean that the company will remain solvent because the Government requires it to set apart a reserve.

Q.—But as long as you keep that up you are solvent? A.—And we have got assets to meet it. That is, of course, the point.

MR. SHEPLEY: It is a sort of arbitrary solvency that the Government requires.

MR. HELLMUTH: Quite so, and so whether you have always been over that position, you are to-day very much over it? A.—Yes, we are to-day very much in advance of that, I am pleased to say.

Q.—You have at the present time a cash surplus according to your statement of 1905, over and above all lia-

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

bilities of over $700,000? A.—Yes, we have that.

Q.—Now will you tell me what part, to the advantage of the policyholder, the $100,000 of capital can play with that surplus, one-seventh of your surplus? A.—I think that there are advantages in a small capital stock such as we have in our company. I think it ensures more conservative management, more continuity perhaps in the management than in a purely mutual company where no such factor obtains. It would be, as I intimated a moment ago, of advantage should any circumstances or contingency unfortunately arise in the future history of the company where it might not be able to maintain the technical standard of solvency determined by the Government. It was of very decided value to the company and to the policyholders in the early days of the company, and I do not think that a capital stock which has served a good and useful purpose to the policyholders during a certain period of the company's existence should be dispensed with because a period happens to arise when that capital stock is as far as solvency is concerned, not absolutely necessary, disregarding the future contingencies.

Q.—Then you do not agree with the report of the Armstrong Commission, that the stock companies so soon as they are in a position to satisfactorily meet all their obligations, should be mutualized? A.—I do not think it is just treatment of the stockholders. You take many of our young companies that have been organized in recent years. Companies that are today, if I may use the word, struggling for their existence. They could not possibly be brought into existence and become established companies without the substantial aid afforded by capital stock. For a great many years the shareholders in those companies cannot possibly receive any dividends. They are under a very considerable liability and while I do not wish to make any statements that may be misunderstood or misconstrued, I think it is not by any means a certainty that all those companies will survive.

Q.—How would that apply to a second issue by way of bonus, supposing they put up $50,000, that it was proved to be sufficiently ample, why should the policyholders' money be saddled with interest at 30 per cent. on $50,000? A.—It was not the policyholders' money in the first place that was applied and it is not the policyholders' money in the second place that is being applied to pay dividends.

Q.—Is it not a fact that if in 1887 you had mutualized the company you could have wiped out the entire capital stock, the $50,000 paid up, you were in a position to do it then? A.—I don't know that we were. We had no legal right to do it.

Q.—I mean you were in a position to do it so far as your financial condition was concerned? A.—I don't know that we were.

Q.—You had a large surplus, you were dividing that year as I showed you, among the policyholders alone in profits, over $140,000? A.—Your proposal is to take the policyholders' money or profits to pay the stockholders?

Q.—Yes, pay them off. Or to take the stockholders' own money as you call it, the $50,000 they have earned and pay them off? A.—Would that be fair to the stockholders who have assumed the responsibility.

Q.—It depends upon what interest they have got. Have you figured what interest they had got up to 1887? A.—I cannot tell you the figures offhand.

Q.—Would you be surprised to learn that they had received, taking into account the first two years when no dividends were paid but averaging it so that they would get dividends over that period, something over 11 and nearly 12 per cent. on their money from the day it went in? A.—I would not be surprised at that at all, and the large proportion of that interest for dividend that was paid to them arose from interest that was earned upon the capital stock of the company, which was earning at that time not 5 per cent., but 7 and 8 per cent.

Q.—So that they got more than their own stock ever earned, by 3 or 4 per cent. from the very outset? A.—Probably they did. They got more than the stock earned certainly. They got the profits arising from the non-participating branch of the business.

MR. NESBITT: Might I interject that if they had bought Toronto Real Estate, as it was open to them to do at the time, at the corner of King and Yonge, they would have had 500 per cent. You do not hope to convince this gentleman that he ought to take the stock out of his pocket and hand it back, having incurred the risk?

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

MR. HELLMUTH: I wanted to know his view in regard to the mutualization of the company? A.—I do not think it is just to men who have risked their capital during the early years of the company, as soon as the company is able to stand on its feet, to turn around and retire the capital stock nolens volens.

Q.—Why limit it then to 50 per cent. by way of bonus addition? Why not run it up to 3 or 4 or 500 thousand? Why so modest? A.—We do not wish to do so and we could not do so if we did wish. We have not surplus funds to do it.

Q.—You have paid $15,000 a year to the stockholders? A.—Yes.

Q.—Would it not be very much better instead of paying 15,000 a year in the interest of the stockholders, to only pay them 5 and put 10 more each year to capital account? A.—Well, that might be your judgment.

Q.—Would it not bring them in on the same basis a very much larger return? A.—Then that would be the reverse of the principle formerly applied and which you were urging.

Q.—I am suggesting now in the interest of the stockholders, not the policyholders. Are you aware that during the whole period of the company since 1872 the total profits paid out are in the neighbourhood of 2 million dollars actually appropriated, not touching now the reserve still in the hands of the company; that is to say $1,638,378 has been paid to policyholders, and to stockholders not counting the $50,000 added, $359,985? A.—Those figures may be approximately correct. I thought I had some figures here bearing on that but I find I have not.

Q.—If those figures are approximately correct, I admit that they may be a few dollars here or there, but I have gone over the statement of the company, and they are correct if my additions are correct. If those are correct would you be astonished that that shows that 18 per cent. of the total profits of the company since its inception have been paid to the stockholders? A.—I would be surprised, because it is not correct.

Q.—Then I would like you to verify these figures if you will? A.—There is a large amount of profit earned that you are not taking into consideration.

Q.—Quite so, but I am taking all the profits actually divided up to date between policyholders and stockholders that have been actually appropriated? A.—There has been more than that appropriated.

Q.—Paid. I am taking your own statement that there is at present cash surplus above all liabilities, which has not yet been divided, or several hundred thousand dollars, roughly speaking. Now leaving that out of account and taking what has actually been appropriated, would you be astonished that the amount paid on the original $50,000 capital of the total profits of the company has amounted to 18 per cent. of all the profits paid? A.—I do not know what the percentages are.

Q.—Would that astonish you at all? A.—No, it might not. I won't admit the figures; I have not examined them myself and I do not know whether they are correct or incorrect.

Q.—The total assets of the company are something over 10 million dollars? A.—They are.

Q.—And of that a half of one per cent. represents the money actually paid in by the stockholders, $50,000? A.—Yes.

Q.—That would be right? A.—Apparently.

Q.—Now in your company you do not take the same position, I assume, as Mr. Goldman, that in order to have the company properly and efficiently managed it is necessary to have stockholders who are financially interested in its success, you do not take that position? A.—I take it that it is better.

Q.—But your President and your Vice-President are not stockholders at all? A.—I know that. One of the Vice-Presidents.

Q.—And those gentlemen, I have no doubt, devoted as much care and attention as any of the stockholders? A.—Quite so.

Q.—My learned friend Mr. Nesbitt says they are very rare types. Very rarely in control of companies, gentlemen who have not any interest in the stock, would perhaps be correct, would it not, in Canada? A.—That control the companies?

Q.—I mean as directors, I don't mean control in an offensive sense. I mean those parties who help to control the management? A.—I don't know in what sense you use the word control.

Q.—I mean manage; I will use the words help to manage; it is very rare to find gentlemen who are not stockholders in the Canadian companies like you have, I mean yours is rather an exceptional position? A.—I don't know that. I think in the other com-

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

panies you will find policyholders in the management.

Q.—Presidents and vice-presidents who are only policyholders. Could you name another company in which such a thing occurs? A.—I don't know anything, of course, about the qualifications of the officers in the other companies. I really could not speak. I have not gone into it, you know.

Q.—Do you think it would be difficult or do you think there would be any less attention given to the affairs of the company if all the directors occupied such positions, that is as policyholders, that Mr. Beatty and Mr. W. D. Matthews occupy? A.—They might not be able to get as good and strong a board of directors if you had to eliminate gentlemen from the board who were not policyholders.

Q.—You need not eliminate gentlemen from the board. I say if it is only a mutual company why cannot you get the same type of men that you have got in your company now? A.—We could not get those men, because they are not policyholders and perhaps some of them not insurable, but still men of such financial position that they are valuable members of our board.

Q.—I do not remember whether Mr. Shepley asked you whether there were any rebates at head office. Do you know whether rebates are allowed at head office? A.—No.

Q.—None at all? A.—Not so far as I know. It is directly contrary to the rules of the office and I certainly never heard of any being allowed there.

Q.—Have you any suggestions to offer with regard to stopping rebating? A.—No, not at this juncture.

Q.—What do you think of making it an offence applicable equally to the receiver as to the giver? A.—I think if any legislation was enacted the receiver should be punishable with the giver. That both parties should be punished. I do not know whether that is good law or not but I think it is the only way that we can make a law of that kind effective.

Q.—Do you know or have you heard of any practice by which agents receive a bonus or premium for writing a certain amount or over a certain amount of business in the year? A.—Yes.

Q.—Is that done in your company? A.—We have agents who are employed on salary and if they write a certain amount of business will get at the end of the year a bonus. Some of them, not all on that scale. It depends on their agreement.

Q.—Is it not likely to tend to rebating? A.—Well, if a man chooses to put his hand in his pocket and pay out part of his salary or anticipated bonus I suppose he might rebate, but that man is not nearly as likely to rebate as the man who is remunerated directly by commission.

Q.—Consider this position. A man has a bonus of a considerable amount coming to him provided he writes over, we will say, $200,000. He has written $190,000 and it is difficult to obtain the balance. Would it not be worth his while to throw off his commission in order to get over the mark and get the bonus? A.—I dare say it might. Just the same way with a man who is on a straight commission. That would apply on any policy he writes.

Q.—The giving of a bonus might tend to rebating towards the end of the year? A.—No, I will not say it would tend to rebating, but it might leave an agent open perhaps to a little temptation at the end of the year, but not nearly so much so as a man who is on the straight commission basis.

Q.—You made some reference yesterday to the State insurance in New Zealand? A.—I referred to it, yes.

Q.—Do you consider that that is a failure? A.—I did not say it was a failure. I said compared with the Australian Mutual Provident, an ordinary company operating in the same field, it will not bear a favorable comparison. That is the result, the expense ratio and the results in the Australian Mutual are more favorable than the New Zealand Government Department.

Q.—Have you seen a report of the New Zealand Government Commissioner, the report of Mr. Richardson of Wellington? A.—He sends it to me regularly. I have not read it for some time past.

Q.—Are you aware that he shows that the State Insurance in New Zealand is something over nine million, very nearly ten million sterling, as against 14 million sterling for all the other ten companies in Australia? A.—Probably those figures are correct.

Q.—So that the State Insurance has considerably more than half as much as all the other companies operating there? A.—Yes, and the larger

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

amount of that, 14 millions you refer to, a larger amount than nine, is in the Australian Mutual that I alluded to.

Q.—A larger amount than nine? A. —I think so.

Q.—But there are two American companies doing business there? A. —Well, I think the Australian Mutual's figures, if not in excess, are very nearly equal to nine millions.

Q.—That would leave only some five millions for the other nine companies, two American and two English, in New Zealand and six Australian companies doing business there? A.—Yes, well, I have not looked at the figures for some considerable time past. I understand we will have an opportunity perhaps of expressing cur views on that, to the Commission later. I may be wrong. On a general subject of that kind.

Q.—Do you say that the expenses of the Australian Mutual compare favorably with the expense ratio of the State Insurance? A.—Yes.

Q.—Are you aware that the ratio of expense to premium income of the State is 12 per cent., or lower than the English companies doing business in England, although the Company only started in the seventies? A.—I know it was somewhere in that vicinity.

Q.—And you say that the Australian Mutual expenses are only 12 or less? A.—I won't say, but I think the figures are less. I have not looked at them for some time. As I said yesterday I was not speaking authoritatively in regard to those figures and statements. I spoke in a general way and subject to correction, as I am doing now. I speak subject to correction because I have not looked at the figures for a considerable time, therefore I must refrain from making a definite statement.

Q.—What objection would there be to State insurance if it was confined to insurance pure and simple, could it not be done very much more cheaply than the companies do it? A.—At the expense of the country?

Q.—No, not at the expense of the country. Could it not be done very much more cheaply for the assured than the companies can do it? A.—I don't know in what way it could be done I am sure, more cheaply.

Q.—I am speaking now not of the general business but men who desire to insure their lives? A.—What do you mean by "pure insurance?"

Q.—Indemnity insurance without the investment feature? A.—What is indemnity insurance, may I ask? I never knew the term indemnity was correctly applied to life insurance.

Q.—You have heard it applied to fire insurance? A.—Yes.

Q.—It is a protective insurance. Supposing a man insures his life for $1,000 to go to his wife and children without any profits to come to himself, and at the least possible cost to indemnify his family at his death; not to make a profit for himself or as an investment. Could not that class of insurance be done more cheaply by the State than by any company? A.—I cannot see, as I said yesterday, in what possible way the State can do business any more cheaply than the company can. I am absolutely satisfied of this, that no large body of insurance will ever be placed in this country by the State or by any company without the intermediary of agents.

Q.—Then you think that what has been to some extent done in New Zealand cannot be repeated here? A.—It has not been done in New Zealand.

Q.—Why? A.—Because the New Zealand Government Department, as I said yesterday, is an organized life insurance company employing agents.

Q.—Is that subject to correction too? A.—No.

Q.—Are you aware that they do not pay one-tenth of the amount to agents that an American Company of the same size, an average American Company, pays; that they practically have no agency except to collect money, that they do not pay agents commissions on obtaining business at all, are you aware of that? A.—No.

Q.—Are you prepared to say that is not so? A.—I don't think it is so. I have no doubt that they may pay a good deal less than the American companies. That is quite within the limits of possibility. The expense of obtaining business in New Zealand and Australia in all companies is less than it is in the United States and Canada.

Q.—I am just a little curious as to your information about New Zealand, because the expenses of the two American companies in New Zealand are higher by more than one-half of the same companies in their own business, in order to compete with the State insurance? A.—How are you measur-

32nd day, May 30th 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

ing those expenses? The simple fact that expense to premium income may show higher in one company than another is no correct criterion or standard by which to measure expenses.

Q.—Is it no standard if taken over a long period? A.—No correct standard. It would not be admitted by any insurance man as a standard. It is well recognized that all comparisons of that kind are more or less fallacious.

Q.—But after a company has been in existence for a great number of years, do you say that it is no test after a company has been 30 or 40 years in existence, that it is no test of its stability or economy when its average ratio of expense to premium income is reduced? A.—I say it is not a correct basis of comparison unless you are comparing like things. Companies of the same age, about the same volume of business, the same class of business upon their books. You may take two companies of the same age, the same volume of business on their books, but when you come to examine their records you may find that the plans or classes are entirely different. One company may have a large amount of straight life business, and another a large amount of endowment business upon its books. It is not fair to measure the expense of the business on the basis of premium income in those two cases. The expense to premium income in a company with a large endowment business will show a lower rate or ought to show a considerably lower rate of expense than the other company with whole life business.

Q.—That would rather show this, that a company such as yours, which does an endowment business of something like 90 per cent. over its life, ought to show a lower ratio of expense than a company doing a straight life business? A.—We do not do 90 per cent. over our life.

Q.—I thought those were the figures.

MR. SHEPLEY: No, 90 per cent. participating and not participating.

MR. HELLMUTH: What percentage is endowment? A.—I could not tell you. Perhaps a third. I do not know.

Q.—You do a very large ratio of endowment business? A.—Not nearly so large now as we did some years ago.

Q.—I mean compared with other companies? A.—We did years ago. We do not now.

Q.—Therefore a test in that way would rather imply a lower ratio? A.—The large amount of that endowment business has passed off our books, and I do not think the volume of endowment business on our books to-day is higher than any average Canadian company. The Government returns however will speak as to that.

Q.—In companies of the same or nearly the same age writing practically the same class of business do you still say the ratio of expense to premium income is not a fair test of the economy with which the company is managed? A.—Not necessarily at all.

Q.—I did not say necessarily? A.—But I do though.

Q.—In the main is it not a fair test? A.—No, it may or may not be. That will depend upon circumstances altogether.

Q.—It is the test that has been made? A.—When you are comparing the New Zealand Government Insurance Department with the New York Insurance Company, I am quite satisfied you have not got all the figures and facts to enable you to make a fair comparison, because the forms in which those returns are furnished by the New York companies will not permit of it. I am speaking now, as you were, of their New Zealand business. It is a very common practice to make comparisons in that way where the company's returns are partial. I do not say it is done intentionally or with the intention of misleading, but it is done perhaps with a misapprehension.

MR. NESBITT: Because a little knowledge is a dangerous thing.

MR. HELLMUTH: But you have hardly that little knowledge of the New Zealand that would make you dangerous? A.—I am not making suggestions.

Q.—I was giving figures from the books. Is it not a fact that the companies in New Zealand, if you have looked at that at all, have brought their rates down by reason of the Government insurance and are writing their business at lower rates? A.—They may have done so. I do not know. I cannot answer the question.

Q.—You do not know that? A.—No.

Q.—So that you have hardly touched the fringe of New Zealand in regard to State insurance? A.—I know that they are organized as a regular company and that is the way they get their business.

Q.—But you have never inquired as to the small expense? A.—Oh, I knew their expenses are very much lower than the expenses in Canada. I

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

know that is peculiar to all Australian companies.

Q.—Do you know that they are very much lower than the expenses of any of the companies that are competing with them in New Zealand? A.—No, and I don't think that they are. Properly measured.

Q.—But that is subject to correction? A.—No, I think that is correct.

Q.—I would like to know on what you base that? A.—My recollection of looking at the figures the last time I looked at them a year or two ago.

Q.—You said you had not looked at Mr. Richardson's figures for some years? A.—I have not looked at them recently. I will not speak as to figures without refreshing my memory I am not going to state from what I simply think or carry in my mind.

MR. SHEPLEY: Colonel Macdonald, while my learned friend has been conversing with you, some further returns have been received which we will just run through for a minute or two. This is in reference to the ratio of first year expense to first year premium income, and with reference to the length of time it takes to recover. Certain figures have been submitted to us and I have Mr. Dawson's comments upon them. This is given to us by your company? A.—Yes, subject to correction. I told Mr. Dawson it has been computed in a hurry.

Q.—This is an illustration of the accumulation of the fund under a policy on the all life, 20 payment life, and 20 year endowment plans upon the following estimates which are based on the experience of the company for the year 1905. The rate of mortality experienced on the total business for the year was 63 per cent. of the expenditure. The assumptions therefore of 50 per cent. for the first year and 65 per cent. for the following years are justifiable. Expenses for the first year 350 per cent. of the premium loading. Expenses of renewal 63.5 per cent. of premium loading. Rate of interest 4.9 per cent. Mortality first year 50 per cent. of the tabular cost according to Hm. table and 3 per cent. interest. Subsequent years 65 per cent. of the tabular cost.

Profit arising from lapses and surrenders was appropriated to expenses in the proportion of two-thirds for the first year expenses and one-third to renewal expenses.

Then you have given us certain results here and I have taken the liberty of carrying them out. This is all life premium $27.95. This is for the purpose of ascertaining what is at the credit of the policy during each succeeding year? A.—Or the debit.

Q.—You first take the net premium $6.02. You add to it interest 30 cents, making $6.32. You deduct from that the mortality 4.32 and it leaves two. You have at the end of that year, however, to set apart a reserve, Mr. Dawson tells me, of $13.94? A.—I have no doubt that is correct.

Q.—Then at the end of the first year if you were keeping an account of debit and credit for that particular policy, you are still minus $11.94. Then during the second year, similarly at the end of that year, your reserve has to be $28.08 and there is still a deficit of $6.43 at the end of that year? A.—Yes.

Q.—Then at the end of the third year the debit practically disappears the minus quantity being only 33 cents? A.—Yes.

Q.—Then taking the 20 payment life, the premium is $36.95, and treating the figures similarly it takes considerably longer to recover? A.—It will on that form of policy.

Q.—At the end of the first year the policy is minus $20.48. End of the third year, minus $12.12. End of the fourth year minus $6.92. End of the fifth year, it practically disappears, the deficit it is only minus 98 cents? A.—That is about as I would expect only I should have thought there ought to have been a surplus at the end of 5 years. I would like to revise those figures.

Q.—Then take a 20 year endowment as well, these are all at the same age; the premium is $50.55. There you run out and get a surplus at the end of the fourth year.

The figures are, at the end of the first year minus $16.59. At the end of the second year minus $11.08. At the end of the third year minus $3.34. And at the end of the fourth year plus $5.35.

Now one thing struck us that I want to ask you about. Would you not have expected that the whole life plan would take longer to recover than under either of the others? A.—No. The 20 payment life plan would be the one that would take the longest to recover, for the reason that our premium rates are computed on a 3½ per cent. basis and we are reserving on a 3 and therefore it happens incidental-

32nd day, May 30th, 1906.

ly to bear the more heavily against that plan. If the premium rates had been computed on the same basis as that on which we are reserving and the loading perhaps adjusted accordingly I think perhaps there would not be the variance in the results. That would be just my own opinion offhand.

Q.—Has the apportionment of expenses to the various classes of policy anything to do with the time it takes to catch up? A.—It would depend, of course, upon the basis adopted of the apportionment of expenses.

Q.—These figures are given as at the end of the policy year? A.—Yes.

Q.—If you take your account with the policy at the end of the calendar year how would you expect to find that? Because Mr. Dawson has done that and I want to put his result before you? A.—The reserves would be greater.

Q.—And therefore the deficit would be greater and would take longer to overtake? A.—Yes.

Q.—Mr. Dawson has given me these figures and you might look at them and see if you think they are approximately correct. This is at the end of the calendar year. He takes the years in the case of the all life plan, first, second and third and he finds a substantial increase in the deficit at the end of the first three years. You would expect that, I suppose? A.—Oh, yes, the mean reserve, of course, in those policies will exceed the terminal.

Q.—I will take this down subject to correction and have it upon the record. Taking the age 35, all life plan, at the end of the first calendar year,

The accumulation is...	$4 01
Reserve	17 90
Deficit	13 89

At the end of the second calendar year:

The accumulation is...	$23 89
Reserve	32 00
And deficit	9 11

At the end of the third calendar year:

The accumulation is...	$43 95
Reserve	46 20
Deficit	2 25

Then at the same age, a 20 payment life, at the end of the first calendar year:

Accumulation	$4 52
Reserve	26 90
Deficit	22 38

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

At the end of the second calendar year:

Accumulation	$31 98
Reserve	50 20
Deficit	18 22

At the end of the third calendar year:

Accumulation	$60 06
Reserve	74 10
Deficit	14 04

At the end of the fourth calendar year:

Accumulation	$89 47
Reserve	98 60
Deficit	9 13

At the end of the fifth year:

Accumulation	$120 29
Reserve	129 90
Deficit	3 61

and it would catch up in the following year, the sixth.

At the same age 20 year endowment, the first year:

Accumulation	$20 12
Reserve	38 70
Deficit	18 58
2nd year accumulation	$62 04
Reserve	74 30
Deficit	12 66
3rd year accumulation	$105 36
Reserve	111 10
Deficit	5 74

and we overtake that deficit in the fourth year. It becomes very important from the standpoint from which we are now looking at the question, does it not, that the business should persist beyond these periods? A.—It is always important that it should persist but I do not know just what the point is that you wish.

Q.—It is not desirable that that policy should drop out while it is still behind in its general account with the company, in the way we have taken it? A.—Taken in the way you have taken it; but of course there is a fund at the credit of that policy but that fund of course is less than the tabular reserve. It does not follow that by dropping out there is a net dollars and cents loss to the company.

32nd day, May 30th, 1906.

Confederation Life,
(Wm. C. Macdonald, Ex'd.)

Q.—Of course if it drops out after the payment of one premium there is a definite loss? A.—Taking this form, if he dropped out at the end of the first year he would have to leave that $2 behind him so that the company would not actually lose.

Q.—He would have to leave that $2 behind him but you have forgotten that in the meantime the writing of his insurance has cost a great deal more than he paid? A.—No, it is all included in these charges. Here are all our expenses. We have provided for that and there is the sum left in hand at the end of the year providing for all the expenses and the mortality cost.

Q.—No, but surely, Colonel, if you have expended the whole of the money that he has paid as premium in the process of getting that insurance, you may have it as a matter of book-keeping by reference to other considerations, but you have not as a matter of dollars and cents got any of his money left? A.—On this assumption we do not spend all of his premium in that year. We take the actual experience of our company for the year 1905 and I applied it in that way in accordance with our profit and loss statement that we furnished you but we did not expend the whole of the first year premium in securing business. We had on that all life policy a fund at the end of the year of $2 which, of course, is very far short of the tabular reserve but still was a sum at the credit of that policy.

Q.—With your permission I will put that statement in that you have been good enough to give us (Exhibit 173) I do not take up with Colonel Macdonald the question of State Insurance. It was, of course, right for my learned friend to do so, but I propose to take it up as a substantive inquiry.

MR. KENT: Do you intend to take it up with the same companies we have gone over?

MR. SHEPLEY: My idea is that before the Commissioners conclude their labours I will present to them by way of documentary evidence and perhaps of oral testimony what is to be said, so far as I am able to gather it, upon the subject of state insurance.

MR. KENT: I have one other question to ask Colonel Macdonald. Are you of opinion that there is any room at the present day for any additional life insurance companies in Canada? A.—I am not. We have not only enough but far too many companies in Canada to-day for the good of the business. We have too much competition to-day.

Q.—Then you are of opinion that a close season for life insurance companies would be beneficial to policyholders and prospective stockholders in these companies? A.—It would certainly be beneficial to the stockholders, I suppose, as well as to the policyholders, particularly in these young companies that are to-day, as I said before, struggling for their existence. It would probably benefit the policyholders in the old companies to be secured from any increased competition which naturally would be brought about by the formation of more companies.

Q.—Is it not a fact that a considerable portion of the ever increasing expense is due to the persistent efforts of new companies to get new business, or to get old business away from companies already in existence? A.—I do not want to cast any reflections upon new companies, but they are subjected to difficulties in getting business that do not obtain in the old companies and they have to adopt means sometimes to get business, in the way of larger commissions and so forth which the old companies are not compelled to do. And, of course, the more companies of that kind you have the keener the competition and the greater tendency of course, to increased cost.

Q.—Would it not be an advantage to life insurance generally if proper tables of mortality were prepared to correspond more nearly with the actual mortality than any of the tables now in use? A.—No, I think the tables now in use are sufficiently reliable guides. Any table that you may employ will not be an accurate gauge of the mortality in the future. There are bound to be variations in the rate of actual mortality as compared with any table you may employ; as there will be also variations in the rate of interest which the company will be able to earn and in the expense ratio. They are factors that are variable and cannot be definitely and accurately measured, covering periods of 10, 15, 20 years, or even half a century as has to be done in making computations in connection with life insurance contracts.

Q.—Then in your opinion the tables of mortality are something like ships' compasses that do not agree with each other or with the true points of the compass, but when the variation is known and allowed for it is just the same as if they were apparently at

rest? A.—Just the same; there is no difference in the end.

MR. SHEPLEY: Subject always to the same contingencies as I have stated in other cases, I have closed the investigation into the affairs of the Confederation Life. I will put in first, however, a memorandum that Colonel Macdonald has just given me and a recommendation that he made with respect to going back to the old policies for the purpose of introducing the ameliorating provisions. It seems to be very complete. He has made his report and we have the minutes of the Board from time to time until it was adopted and then we have also a statement made by him in writing at the time of the particular case which brought the matter to his notice. That I put in as one exhibit (No. 174).

Then this is a detailed statement of monies paid to stockholders and policyholders, with totals (Exhibit 175).

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

CANADA LIFE INSURANCE COMPANY.

—Resumed at 2 P.M., May 30th, 1906.

—MR. SHEPLEY: I propose to take up the Canada Life Assurance Company.

—The following counsel appears for the Canada Life Assurance Company: A R. Bruce, K.C.; Wallace Nesbitt, K.C.; and L. McCarthy, K.C.

HONORABLE GEORGE A. COX, sworn, examined by:

MR. SHEPLEY: Q.—You are the President of the Canada Life? A.—Yes sir.

Q.—And you have been since when? A.—1900.

Q.—Your connection with the company has been of course much longer than that? A.—Since 1862.

Q.—What connection did you form with the company in 1862? A.—Became agent of the company at Peterboro.

Q.—Were you agent for a district or section of the country or just a local agent for the town of Peterboro? A.—A local agent for the town of Peterboro at first; at a later date I became general agent for the district.

Q.—About when did you take the agency for the district, about how long after 1862? A.—The district was enlarged from time to time, one or two counties at a time, I should think it would be 5 or 6 years after I first joined the company as local agent that I began to get my district enlarged.

Q.—How long did you remain district agent, if that is the appropriate term? A.—Until I should think about 1896 or 1897, somewhere along there, not very long before I became associated with my son as general agent or manager for the Eastern Ontario Branch, until a few years before I became a director of the company, and later President.

Q.—I gather from what you have just said when you gave up the District agency your son succeeded you? A.—Yes sir.

Q.—Which son is that? A.—In the first place it was my eldest son, E. W. Cox was associated with me in the management of the general agency, and afterwards he became assistant general manager, and my youngest son became associated with the general agency.

Q.—That is the general agency of the district? A.—Yes sir.

Q.—And that Association, call it that for the present, that Association continued until you went upon the Board? A.—Yes sir, and I think after I went upon the Board, I think so.

Q.—And you finally severed your connection with the district agency when, in connection with what event? A.—When I became President, I think that would be correct; I am not quite sure as to that.

Q.—When you first became attached to the Company you have told us you became attached in the capacity of local agent for the town of Peterboro? A.—Yes sir.

Q.—Was that by virtue of some contract, were the terms in writing? A.—I do not think there was any written contract of my appointment unless it was a letter from the General Manager of the Company, Mr. Ramsay at the time.

Q.—You do not recollect about that? A.—I do not recollect of any document, I have no doubt the minutes will show all that, will show my appointment as a local agent.

Q.—And perhaps will show the terms of your appointment? A.—Yes, that will be in the records of the company some place.

Q.—Are there any subsequent contracts during the time that you were either local agent or district agent that have been preserved and that are available? A.—I am not aware of any unless it would be letters from Mr. Ram-

32nd day, May 30th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

say that would be in the files; I am not aware of any written contract unless it would be by letter.

Q.—Speaking generally and not now with reference to specific figures, upon what terms was your employment originally? A.—The terms originally I think were 10 per cent. commission.

Q.—I was not so particular for the moment as to that, you were originally employed as agent upon commission? A.—Yes sir.

Q.—Not salaried? A.—Not salaried at that time. When I became general agent I had an allowance in addition to the commissions.

Q.—You commenced then upon commissions? A.—Yes.

Q.—And four or five years afterwards when you became general agent for the district an allowance was added to the commissions in respect of that? A.—Yes sir.

Q.—Again speaking generally was there any alteration in the scope and field of your duties when you became district agent, general agent? A.—Yes, the field became enlarged from time to time and the duties became enlarged. After some years the renewals were all collected, the agents in the district remitted to me at Peterboro, became an Eastern Ontario Branch and the duties extended.

Q.—When you became district agent you had sub-agents under you through the district? A.—Yes.

Q.—Were those sub-agents your appointees, or appointees of the company? A.—Appointees of the company, recommended by me for appointment; every appointment I made was subject to the approval of the Board.

Q.—Was there any direct communication and relation between the sub-agents and the head office in respect of their remuneration, or did that depend upon you? A.—That depended upon me, but as I said before, subject to the approval of the Board; every appointment and the terms of the appointment was reported to and approved of by the Board.

Q.—I was immediately asking you with respect to the payment of these agents, how was that arranged, did their remuneration come out of your commissions? A.—Yes sir, it came out of my commissions.

Q.—You received certain commissions in addition to the fixed salary you speak about? A.—Yes sir.

Q.—And you were supposed out of that to pay the sub-agents? A.—Yes sir. That was not called a salary, it was called an allowance for travelling.

Q.—In the nature of an allowance for expenses perhaps? A.—Yes.

Q.—The appointments of the sub-agents would, as you have said, be made by the Board upon your recommendation, or if you made appointments they would be subject to the Board's approval? A.—Yes sir.

Q.—I suppose as a matter of practice you were left pretty well to select your staff? A.—Yes, almost exclusively, I may say exclusively.

Q.—I was just asking you substantially, I suppose you were not hampered much in your choice of your own sub-agents? A.—No sir I was not.

Q.—You had such men gather about you in the service of the company as were best suited to the objects you had in view? A.—A good many of them were agents of the company for that district before my appointment as general agent; some of them remain yet.

Q.—And when their territory would be included in the larger district they would come under your jurisdiction? A.—Yes, and report to me at Peterboro instead of reporting to the head office direct.

Q.—When there was this annexation of territory and when you had to cover the field by sub-agents was there a substantial increase in the commissions which you received? A.—Yes sir, the commissions increased from time to time.

Q.—You have told us you commenced at ten per cent., I take that to mean ten per cent. upon all collections? A.—Ten per cent. on the first premiums.

Q.—Those were the golden days of life insurance? A.—Yes sir, it was when you had to work hard to make your bread and butter.

Q.—With respect to renewals how were commissions in those early days? A.—I got $7\frac{1}{2}$ per cent., out of which I had to pay the local agents, and as a rule they were paid 5 per cent.

Q.—With respect to the first year's premium, supposing the local agent had got a risk there how would he be paid in those days? A.—I do not quite understand you.

Q.—You say that in respect of renewals you paid a portion of the $7\frac{1}{2}$ per cent. to the local agents in certain cases? A.—Yes sir, 5 per cent. as a rule.

Q.—Where the insurance was obtained through a local agent was he entitled to a portion of the first year

32nd day, May 30th, 1906.

— A.—He would get the first year commission, I do not remember just how the commission increased, but probably by that time I would have received 15 per cent. or perhaps 20 per cent. and the local agent would get a portion of the first year, or perhaps the whole of the first year's commission and 5 per cent. of the renewals.

Q.—Had you practically the fixing of the rates of commission which the local agents or sub-agents were to receive? A.—Yes sir.

Q.—You made your own bargains with them and you were not hampered, as you have told me, your bargains were uniformly probably confirmed by the Board? A.—Yes sir; I do not remember of any case where they were not.

Q.—Then just again speaking generally, because one does not want to go too much into details, the rates of commission upon premiums of insurance rose from that time on and had reached a very larger figure when you ceased to hold the agency? A.—Yes, very much larger; that became the case with all the companies, the competition was such that—

Q.—I should like you to give the Board an idea as to the periods of increase so that they may have some idea of how from time to time the rates of commissions have advanced? A.—I would not be able to do that from memory, I could get that information to-morrow morning or for the next sitting.

Q.—You could get that information exactly? A.—Yes, I think so. This is the terms of the appointment when we removed the head office of our branch to Toronto, and when a portion of Western Ontario was added to our Eastern Ontario Branch. (Reads memorandum of the terms of the appointment, which was filed as Exhibit 176.)

Q.—This (Exhibit 176) is an extract from that meeting of the Board of the date 30th May, 1887? A.—That would be the time we removed from Peterboro to Toronto.

Q.—That is the Eastern Ontario Branch? A.—Yes. The headquarters had been at Peterboro of the branch, and at that time it removed to Toronto, and those are the conditions.

Q.—Had your son become associated with you at this date or were you by yourself? A.—My son who is now the General Manager had become associated with me at that time before I came here.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—The letter was written to yourself and there is no reference in it to anybody being associated with you, but as a matter of fact you say your son was? A.—The latter paragraph speaks of the managers.

Q.—Do you mean your son was partner in the Agency? A.—Yes, it was George A. and E. W. Cox, that was the name of the firm.

Q.—Was the firm recognized as the agents or were you recognized as the agent of the company? A.—The firm was recognized, and the business was done as I say under the name of George A. & E. W. Cox, Managers E. O. Branch.

Q.—To go back to where we were this paper was produced, can you tell me whether between 1862 and 1887 there had been gradual advances or any advances in the rate of commissions? A.—I think there had been, I am pretty sure there had been, but I cannot recall the date, but I can provide that information for you.

Q.—I do not want it accurately, I just want you to give a broad and general idea of the growth in the rate of commissions during the earlier years; this covers a period of 25 years? A.—Yes.

Q.—1887 may perhaps be spoken of as the medium years? A.—I should judge the commissions before we came to Toronto would perhaps be 30 per cent., and then when the district was enlarged and the duties increased I imagine that there was an increase in the commissions.

Q.—That 30 per cent. had, I suppose, been reached by gradual processes of growth from the ten per cent., the original commission? A.—Yes sir.

Q.—Extending over a very considerable number of years? A.—25 years.

Q.—We perhaps will commence with this, which I have ventured to speak of as the medium period having regard to the rates of commission; the first provision is that the company is to provide office accommodation? A.—Yes.

Q.—Does that apply to local agencies outside of Toronto, sub-agencies? A.—In some cases the company allow extra for some of the outside offices; I do not recall at the moment any case but that of Ottawa; Ottawa is an important agency, and a portion of this rent is paid by the company and a por-

tion by the agent; there may be some others of a smaller amount.

Q.—The office accommodation referred to in this memorandum is probably intended to mean the office accommodation at Toronto? A.—Yes, at present occupied by the branch.

Q.—At that time had you a very considerable staff, yourself I mean in your agency or branch? A.—I think there would be a staff—you are speaking of the inside staff, or the field?

Q.—First the office staff? A.—I should think six or seven or eight, I am not sure I am correct in that, it would be somewhere in the neighborhood of ten, not very much above or below

Q.—Your field staff was much larger? A.—Just all the men I could get to work.

Q.—What was your field to which this agreement was applicable? A.—It was all of Ontario east of Toronto and a portion of northwestern Ontario taking in everything to the north of the C. P. R., that is the Owen Sound line, that was the dividing line, I think, running out from Toronto, all to the right of that, northwestern Ontario.

Q.—All to the right as you go to Owen Sound? A.—Yes.

Q.—That was included in the Eastern Ontario Branch? A.—Yes, and the city of Toronto.

Q.—And you had all of Ontario east of Toronto? A.—Yes sir.

Q.—The next provision is the necessary clerical staff to be appointed by the Board on the recommendation of the local managers and the company to fix and pay the salaries of such staff, that is the clerical staff, not paid by commissions but paid by salaries? A.—The inside staff are altogether paid by salaries.

Q.—Their salaries were not only to be paid but to be fixed by the Board; that was of course before the company moved its head office to Toronto; it was then at Hamilton, the head office, in 1887? A.—Yes.

Q.—And the Board held its meetings of course at Hamilton? A.—Yes sir.

Q.—Then the next provision is a commission of 35 per cent. on the first year's premium on all new business paid for to be allowed? A.—Yes sir.

Q.—That is where the commissions were actually received by the company, 35 per cent. of them were to be allowed to you and your son, to your firm by way of commission? A.—Yes sir.

Q.—There is nothing said here at all with regard to your field agents, but I suppose what you have said before applies to them under this agreement, that is that you made your own arrangements with them out of the commissions which you received? A.—Yes sir, and by that time I would have very likely salaried men working in the field too, but that all had to be paid out of the 35 per cent. and the renewal commissions.

Q.—Where you paid your field agents by commissions under this agreement, taking the earlier years, the years while it was in force rather, about how much of your first year's commission would you give up to them? A.—That depended altogether upon the success of the men; in some cases I would give them more than the 35 per cent., because I would have the $2\frac{1}{2}$ per cent. renewals.

Q.—The commission of $7\frac{1}{2}$ per cent. upon all renewal premiums paid at agencies in the branch out of Toronto to be allowed? A.—Yes sir.

Q.—That is where your field or local agents collected the renewal commission you got $7\frac{1}{2}$ per cent., and you again arranged the terms of sharing that with your sub-agents? A.—Yes sir.

Q.—When the renewal premiums were paid not at local agencies but at the office at the branch here at Toronto the next paragraph provides that for four years there was nothing to be allowed? A.—Yes sir.

Q.—Do you recollect the reason for suspending commissions for the four years? A.—It was because the retiring agent, Mr. Henderson, got an allowance from the company.

Q.—Mr. Henderson had been the agent and he was retiring? A.—The company paid him a certain amount of money, I do not know how much.

Q.—He was to be paid a certain amount of money for four years, did you understand? A.—No, he was paid a certain amount I think and for four years no commissions were to be allowed to the new appointees to cover that expenditure by the company, whatever it was.

Q.—In other words he was being dispensed with at an expense to the company, and the company took this means of recouping itself to that extent? A.—Yes sir.

Q.—What terms were you on, if any with the company at that time with regard to the commissions in respect of past business elsewhere than in Toronto? A.—All the business of the district which I have named, the 35 and $7\frac{1}{2}$ per cent. applied to it, all re-

32nd day, May 30th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

newals and all new premiums collected in that district, even if they were paid at the head office direct.

Q.—So long as they were in respect of business written in that district? A.—Yes sir, belonging to that district.

Q.—In respect of the Toronto renewal premiums after the four years you were to receive 2½ per cent? A.—Yes sir.

Q.—Then there was this allowance for travelling and other outside expenses, that was a fixed sum of $1,500 per year? A.—That was the same as it had been before we came to Toronto.

Q.—Then the 7th paragraph, "The appointment of the managers of the branch," that would be your firm? A.—Yes sir.

Q.—Yourself and your son? A.—Yes.

Q.—"The appointment of the managers of the branch to be like that of all other officers, during the pleasure of the Board, and subject to three months' notice of any change upon either side?" A.—Yes sir.

Q.—At any time either the company or your firm might terminate the agency by giving three month's notice? A.—That was the agreement, but of course it is not the usage of the company where an agent has represented them for a good many years, appointments like that are not cancelled without a recognition of the rights of the agent to the commissions; that has been the practice invariably.

Q.—Speaking strictly they would have the right to exercise their pleasure under these terms of this contract? A.—Yes.

Q.—But you say that would not be done, probably it would not be policy on the part of the company to alienate a good agent in view of the business he controlled? A.—In justice to the agent it would not be done unless there was some offence, some crime, something decidedly wrong.

Q.—Was that the working agreement between your firm and the company up to the time you went upon the Board, or was there any change in that? A.—I could not answer that definitely now, I think that the commissions were changed between 1887 and 1900, I am pretty sure they were.

Q.—Shall we be able to get that definitely? A.—Yes sir, without any difficulty whatever.

Q.—Can you recollect now what changes were made in the commissions? A.—I would think that they would be upon a basis of say 50 per cent. graded.

Q.—When you say graded? A.—That is there are different classes of insurance upon which the commissions are higher; it might be 60 per cent., I would not like to speak from memory, but I will get you the exact day and date.

Q.—You think the commissions would have been raised between that and 1900 so that they would probably average after grading them up about 50 per cent.? A.—Yes.

Q.—That is as to first year premiums; as to renewals? A.—7½ per cent., there has been no change in the renewals from the first appointment so far as I can remember.

Q.—Any change in the renewal premiums in respect of premiums paid at the Toronto office, that is 2½ per cent.? A.—They became on a 2½ per cent. basis at the expiration of the four years, and there has been no change since. The General Manager reminds me the branches are all on the same basis.

Q.—This is given to me, and the first page is: "Commissions for 1900, life" — A.—60.

Q.—What is A.P.? A.—Accumulative policy.

Q.—That is deferred dividend policy? A.—Yes.

Q.—60 and quinquennial distribution 55? A.—Yes.

Q.—Five payments? A.—Five payments is 60, ten payments 20 and 15—

Q.—We need not read this at present— A.—The actuary says prior to that it was 40 per cent. flat.

Q.—But speaking generally that is what you had in your mind as having regard to the grading being practically 50 per cent.? A.—Yes.

Q.—Then with your permission I will detach that and file it as an Exhibit? A.—Very well.

Memorandum of commissions just referred to marked as Exhibit 177.

Q.—I assume you are sufficiently familiar with the history of the Canada Life to tell me something about its capital stock? A.—Yes sir.

Q.—The company was organized under an Act of the late Province of Canada passed 25th April, 1849? A.—A deed of settlement in 1847, and an Act of Parliament in 1849.

Q.—That information has not been furnished to us; there was a deed of settlement? A.—Yes; it is recited in the statute.

32nd day, May 30th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—And the authorized capital was how much? A.—One million dollars, it was £50,000 at first, and shortly increased to £200,000.

Q.—£200,000 currency? A.—Yes.

Q.—The shares I think were $400 shares? A.—Yes.

Q.—And they are still $400 shares? A.—Yes.

Q.—Do you happen to remember how much capital was originally paid up? A.—$125,000 was paid up during the first few years.

Q.—There is an interesting historical statement of it here to which I wish to call your attention; if you turn to the last page (refers to statement which is now marked as Exhibit 178); in 1848 there seems to be cash paid in to the extent of $2,000? A.—Yes.

Q.—In 1849 another $2,000 paid in? A.—Yes sir.

Q.—There does not seem to have been any more capital paid in in cash until 1856? A.—Yes sir, $24,787.50.

Q.—Do you happen to remember whether this company—you would not perhaps know originally, but you can perhaps tell from your knowledge of the company—did this company from its inception lay aside a reserve, provide a reserve? A.—Oh yes.

Q.—From the beginning? A.—Yes, an adequate reserve for the rate of interest then being earned.

Q.—Do you happen to remember on what rate of interest, or have you heard on what rate of inerest the reserve was computed? A.—I think on a 6 per cent. basis at first.

Q.—And upon that basis an adequate reserve was laid aside from the very beginning of the company? A.—I assume so; I had no connection with the company then.

Q.—I am only asking you to tell me so far as from information you have acquired? A.—I can get that definitely for you; I can give you the exact figures; perhaps the actuary has it now.

Q.—If he can state the fact? A.—The reserve was put up on a 6 per cent. basis.

Q.—I see that in 1849 the company had done so well that it was able to declare a bonus or a dividend upon its capital stock, which was then, including what was paid in in 1849, $4,000, of $1,000, that is 25 per cent.? A.—Yes. I have no doubt that is correct; the figures are taken from the books of the company.

Q.—And that bonus seems to have been applied in additional payment upon account of the stock itself? A.—Yes.

Q.—Then in 1850 a similar bonus of $2,000? A.—Yes.

Q.—In 1851 a similar bonus of $2,500? A.—Yes.

Q.—1852 $3,500? A.—Yes.

Q.—1853 a bonus of $5,000? A.—Yes.

Q.—1854 a bonus of $7,000? A.—Yes.

Q.—1855 a bonus of $8,350? A.—Yes.

Q.—All these bonuses were applied as payment upon the capital stock? A.—Yes sir, I think I would be correct in saying that during that time no dividend was paid to the shareholders.

Q.—No dividend other than this? A.—No; that is my impression but I am not sure.

Q.—In those few years less than ten, the $4,000 had grown by all these bonuses? A.—Yes sir.

Q.—From your knowledge of the business of life insurance would you be able to say whether that state of things did or did not indicate that there was no necessity so far as the business was concerned of putting in further capital, you had an adequate reserve provided, you were flourishing, you had appreciated your capital stock by 700 per cent. or thereabouts—I mean by you the company—can you see any necessity for the operations of that company bringing more capital in? A.—You must remember that during all that time the shareholders credit was pledged for one million dollars and without that they would not be able to do business.

Q.—I quite accede to that, but I am speaking now of any immediate necessity by reason of the conditions of the company and its operations and business for bringing in additional money immediately? A.—I think the position of the company would be improved and strengthened by bringing it in at that time or any subsequent time.

Q.—I would be inclined to entirely agree with that, but I am rather concerned now with the question as to whether in regard to maintaining the solvency of the company and the satisfactory nature of its operations it was necessary to bring in money? A.—I do not suppose it was necessary, because a mutual company could do busness but I think it was desirable and in the interest of the company—I can remember myself in canvassing for bus-

32nd day, May 30th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

iness if it had not been for the capital I would not have been able to get the business at all. In the early history of the company the figures were so exceedingly small and the credit so low that it was only the subscribed capital of a million dollars that kept it open. The business itself was very small. If you look at the figures that were—

Q.—I am afraid I cannot allow you to depreciate your own efforts? A.—If you look at the figures you will see the business that was being done was small; we have more in one week now than was done in a year then.

Q.—But everything was on a perfectly sound financial footing? A.—A great many people did not think so.

Q.—Enough people insured with you to make $20,000 in ten years on $4,000 in addition to providing a reserve and setting aside profits for the policy-holders; however the figures will have to speak for themselves. We have had the case of one company which had power to mutualize itself, which power it never exercised. Assuming your company had the power to mutualize itself, and desired to mutualize itself, it could very well have done it anywhere about 1854 or 1855, is not that fair? A.—I do not sufficiently remember the figures at that time to answer that definitely; it would be exceedingly small.

Q.—Is it necessary to answer that to have more figures than those that are before you and the knowledge that an adequate had been laid up, and that the participating policies were receiving profits? A.—I think if at that date there had been an effort to mutualize the company and do away with the million dollars of subscribed capital that the company would have gone into liquidation, from my knowledge of the company ten years later that would have been the case.

Q.—I want to ask you about that, because that may be in the deliberations of the Commission very important, why do you say that? A.—Because the security that would be offered to the public would not be sufficient to induce them to take a policy in the company. I can remember—

Q.—Please let me stop you there; are not there highly successful companies which have always been run upon the mutual principle? A.—That may be so, but not in those years.

Q.—Not in the early years? A.—No.

Q.—You may be quite right about that, do you say then that the insuring public was looking to the backing of a large capital stock in those years? A.—Yes sir, I am quite sure that they were. The business was exceedingly small, perhaps three or four hundred thousand dollars a year of total insurance effected, and an income of a few thousand dollars, the assets a few hundred thousand dollars, and insuring at that time in competition with the Life Association of Scotland and the Edinburgh Life and other companies with whom we were competing, we would not be able to get business at all if we had not had some substantial figures to show, and even then we used to get policies of $500 and $1,000; you would hardly get any person to take more than a three or four thousand dollar policy, and most of them $500 and $1,000.

Q.—A small policy was a pretty general thing in those years in all the companies in Canada? A.—That is true, but at the same time there were companies doing business with large figures, large capital and large assets, the Scottish Provincial, the Edinburgh Life, and the Life Association of Scotland, and companies of that kind we were in competition with; I can remember quite well in my early years—

Q.—Those were not mutual companies? A.—No, they were stock companies.

Q.—And they had large stockholdings behind their enterprise? A.—Yes, and there was no mutual company in existence in Canada at that time.

Q.—I want to have you eliminate that, to assume that without the capital behind the insuring public would have had the necessary confidence to continue insuring as they subsequently did, so far as the financial condition of the company was concerned it would have been possible to mutualize? A.—I do not think it would have been possible to mutualize that company at that time; it could be done now.

Q.—Supposing you could substitute for the backing of capital public confidence which would have carried you just on the wave which did carry you, you did not need any more capital at that time? A.—I suppose you would be correct in saying that, but I still wish to adhere to the statement that at that time—

Q.—I am not taking you away from it; I want to substitute public confidence in your company for the backing of capital stock, and with that public confidence you could have done just

32nd day, May 30th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

the same business that you did? A. —Yes, I have no doubt you could say that.

Q.—In 1856, and that I suppose you can only know from hearsay, but if you do know from hearsay I would like to have you tell me about it, the shareholders commenced to pay in more money? A.—The shareholders commenced—

—Mr. Nesbitt asked Mr. Shepley to allow Mr. Bruce to make a statement. Mr. Shepley consented.

MR. BRUCE: Q.—About 1860, or 1861 or 1862 the late Hon. Donald Macdonald, who was one of the Legislative Council of Canada at that time, instituted proceedings against the company and in fact brought such action against the company that it almost tottered to its fall, it was a serious question with Mr. Ramsay whether the company should not give up business; and that is at a later period than you are speaking of.

MR. SHEPLEY: I am quite content that a statement of that sort should be made, of course.

Q.—We will come back to this, Mr. Cox, apparently in 1856 the shareholders commenced to pay in money, and the allocation of bonuses continued until in 1865 $125,000 had been paid up? A.—Yes.

Q.—In 1865 $125,000 had been paid up, and of that $63,573.50, including the original $4,000, had been paid in cash, and the balance, or $61,426.50, had been paid, realized out of profits? A.—Yes sir.

Q.—If you will turn back to the first page of the statement you will see the statement made there that in 1900 it was decided by the shareholders to call up the balance of the capital stock, which was accordingly done as per copy of resolution of the Board attached, Exhibit number 1, and payments were made as follows"—you were then I think President of the company? A. —Yes.

Q.—And you are able of course to speak with more certainty with respect to events so modern as that? A.—Yes.

Q.—The resolution is attached, and we will look at the terms of that first: On the 29th October, 1900, John Hoskin seconded by Mr. Walker, moved, and it was resolved, That the unpaid capital stock of the company is hereby called up," etc. (Reads resolution, which is part of Exhibit 178.) Then in pursuance of that a circular was sent to each of the shareholders; what was the reason in 1900 for calling up the remaining $875,000 of this stock; there was an uncalled liability of $875,000 upon the shareholders? A.—At that time we commenced to extend out business to the United Kingdom, and further extensions in the United States, and it was the opinion of the directors that the position of the company would be strengthened and improved by the payment in full of the million dollars of capital. That I think is one reason. Another reason is that under our Insurance law and the putting up of our reserve if we had not that million dollars to fall back upon we might be all the time along the verge of bankruptcy; the dividing of our surplus at each quinquennial period brought us just to the verge of perhaps two or three hundred thousand dollars; a shrinkage of two or three hundred thousand dollars in our assets of twenty-five to thirty millions of dollars, a very small shrinkage would do it, would put us in the position where the Insurance Department might ask us to suspend business.

Q.—Of course whatever alarms may have been felt upon that point it is hardly necessary to say that they were not realized? A.—They were not realized, but they might, and this was to prevent them being realized.

Q.—You over-run the Government requirements in the matter of reducing the rate of interest upon your reserves? A.—Not on our business prior to 1900; our business from 1900 down to this time we hold our reserves upon a three per cent. basis.

Q.—That is your reserves upon the business written since the law came into force has been written upon the lower rate of interest? A.—Upon two per cent. instead of 3½.

Q.—In respect of the business prior to that have you done anything yet? A.—Yes sir, we have, we have put it all upon a 3½ per cent. basis, that is perhaps what you mean by saying we over-run our requirements?

Q.—Yes? A.—We did not take the time required, but if we had taken the time the surplus would have been divided; we could have held the surplus of course without dividing.

Q.—At all events you have done that, you have in respect of business written prior to 1900 anticipated the requirements of the statute by writing up your reserves to the 3½ per cent. basis? A.—Yes.

Q.—And you have in respect of all the business since created reserves upon the lower rate of 3 per cent? A.—Yes, sir.

32nd day, May 30th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—If you could not have put up these additional reserves without an increase in your capital then the putting up of the reserves out of the increase of capital would show impaired capital in your returns, would it not? A.—I do not think I follow you.

Q.—If it was necessary to have this increased capital in order to provide for the additional reserves— A.—It was not, that has nothing to do with the reserves; the increased capital has nothing whatever to do with the reserves.

Q.—Then we are quite agreed about reserves; then when I ask you what reasons there were for requiring an increased capital, what you stated to me, as a second reason, was that the Government requirements—if you had not the additional capital—keeps you somewhat on the verge of bankruptcy? A.—Let me explain; when we take our last annual meeting, at our last division of surplus at the end of 1904, in putting up the reserves and in making the distribution as we did to the policyholders we had left about $300,000 of surplus; a shrinkage of 2 per cent. in our assets would have left the company $300,000 less than enough to put up the reserves.

Q.—Has the policy of bringing an influx of capital anything to do with the change in the rate of reserve? A.—Not necessarily any connection with it, but it was a great advantage to have the million dollars; if our securities shrank now to the extent now of a million dollars it would be provided against by the million dollars of capital, while if a million dollars of capital was not there the Insurance Department would call upon us to suspend business.

Q.—Because by the putting up of the reserves upon the lower rate of interest you would have brought yourself to the verge of the arbitrary insolvency created by the Act? A.—Yes. Another important matter is the policyholders have no interest, are not affected by the paid-up capital. Under our Act of Incorporation 90 per cent. of the profits go to the policyholders and ten per cent. to the shareholders, and so it does not matter whether the capital was $125,000 paid up or a million dollars paid up, the shareholders do not get any more on the million dollars than they would on the $125,000, except the interest on their own $875,000 that they pay in.

Q.—May this perhaps be said in reply to that, that if your are obtaining ten per cent. of the profits for a capital of $125,000 it is much more likely to attract attention than if you are only getting ten per cent. of profit to divide among a million of stock? A.—That is quite correct, but it does not change the fact that the shareholders are entitled to ten per cent. Many of the old English companies that stand so high they get a very much larger than ten, and the shareholders in this company originally got 25 per cent. of the profits.

Q.—Was there any other reason underlying the policy of the company in calling up this stock than those you have mentioned? A.—No sir.

Q.—Has the result of your altering the rate of interest in respect of reserves, of the old reserves, has that had the effect of lessening the profits—we will call them profits for the present purpose, otherwise attributable to policyholders? A.—No sir, the payment of the capital has not affected that one way or the other.

Q—I did not ask about payment of capital, I say speaking about the writing up of reserves? A.—Writing up of the reserves has reduced the divisible surplus, and it has reduced the amount that would have gone to the shareholders by $259,000.

Q.—And what as to the policyholders? A.—By the balance of the $2,590,000. It took $2,590,000 in round figures to change our reserves to a 3½ per cent. basis, and of that 90 per cent. was contributed by the policyholders and ten per cent. by the shareholders, but that full $2,590,000 goes to the credit of the policyholders, not any of it to the credit of the shareholders.

Q.—That goes to the credit of the policyholders in the shape of reserve? A.—In the shape of a reserve earning interest for them and increasing the divisible surplus coming to them in future division.

Q.—That is giving them interest upon their principal instead of giving them the principal? A.—The money is carried to the credit of the individual policyholder, and if a man is surrendering his policy to-day he benefits by the fact that that reserve was increased, and at subsequent divisions of profits he will benefit: and first and foremost, of course, which is all important, the security is improved,

32nd day, May 30th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

and that is the most important thing in life insurance above everything else.

Q.—You have put in the clearest possible way that whatever may have been said by others the truth is from the economical standpoint, from the standpoint of the policyholders, that ad interim they have put up 90 per cent. of that $2,590,000? A.—To their own credit, yes sir.

Q.—And put it as an interest-bearing asset as against income, to which they are immediately entitled, putting it broadly? A.—They are not entitled to it by the contract; the company has the right to hold the reserves upon whatever basis——

Q.—But if you had not made your alterations in the reserves that would have been available you could have dealt with it as you thought proper? A.—Yes, we could have distributed it or retained it.

Q.—That is one of the subjects of criticism with respect to these declarations of profits, because that is in the hands of the shareholder or the management? A.—That is not altogether; the policyholders have a fund——

Q.—Subject always to the terms of the contract? A.—Yes.

Q.—We have from this exhibit, from the last page of it, we have gone through with a little particularity, we have down to 1865 what has been declared to policyholders by way of bonus accretion to their capital stock? A.—Yes sir.

Q.—Was there during that period a succession of dividends besides? A.—I could not answer that without referring to the books.

Q.—That can be ascertained? A.—Yes, my impression is there was no dividend paid.

Q.—By reason of the form I have put the question addressed to the company there is a necessary hiatus to 1891 in that respect, that can be filled up also if it is required? A.—Yes.

Q.—From 1891 down we have answered in this exhibit the question as to what dividends have been paid upon the actual amount of paid-up capital? A.—Yes.

Q.—In 1891, 40 per cent., two dividends of 20 per cent. each? A.—Yes, I think that must be wrong, 20 per cent, per annum is what was paid.

Q.—20 per cent. half-yearly? A.—I do not think it was 20 per cent. half-yearly, it was 10 per cent. half-yearly.

Q.—Then we will have that put right at once, that 20 per cent. per annum I see was paid down to the year 1899 inclusive? A.—Yes.

Q.—That is from 1891 to 1899, nine years? A.—That is correct, yes.

Q.—The company was paying its shareholders 20 per cent. upon the paid-up capital stock? A.—Yes, they were paying more than that, for they were paying a bonus at the end of the five years.

Q.—In addition to that there was a bonus of 50 per cent. on the first April, 1895? A.—Yes, equalling 30 per cent.; the bonus was for the 5 years.

Q.—Since the calling in of the capital stock and raising it to the million dollar mark you have paid every year, I think, an eight per cent. dividend? A.—Yes, sir.

Q.—And no bonuses of any kind? A.—No, sir, and of course we have the million dollars of the shareholders' own money earning $50,000 in round figures out of that $80,000.

Q.—That is an observation that I think we have heard from the manager of every company: it has been earning money; it has been put in there no doubt at a certain amount of risk, but in reality in a company with the strength of this company, without any risk at all——

MR. NESBITT: Will you permit another statement by Mr. Bruce as to the early history of shares?

MR. SHEPLEY: Let me develop what I am doing first.

Q.—That is so, is it not, from the standpoint of finance, that in a company of the strength of this there is no present risk at all events to the shareholders in respect of their money? A.—I do not think there is very much risk, but we have had things happen within the last few weeks that might make it a risk. I am President of a company where three millions of capital was wiped out in five minutes.

Q.—I hope the Canada Life had no money invested there? A.—No.

Q.—Speaking of the question of the risk from a practical standpoint? A.—I think it is very slight.

Q.—It is well invested and it is earning 8 per cent. per annum? A.—Yes.

MR. SHEPLEY: I shall be very glad to have Mr. Bruce make any statement.

MR. BRUCE: Speaking of this early period to which I referred before, I remember purchasing some shares for my father—I could not give the exact date now, it must have been in the very

early sixties—on which $50 were paid up, and the price I think paid was about $73 or $75. Owing to reverses of the company due to this Macdonald matter, and to the state of the times then, I sold those shares afterwards for $35.

MR. SHEPLEY: That was in the sixties?

MR. BRUCE: Yes. One other observation about the Macdonald matter Mr. Ramsay came out as manager of the company in 1859, and in the early sixties it was a serious question for him whether the company could continue its business and whether he would remain.

MR. SHEPLEY: Fortunately for all concerned, he did remain?

MR. BRUCE: Yes, but it has not been all plain sailing.

Q.—There is one other question I want to mention in connection with the calling of the capital, are you able to say whether the calling up of the capital resulted in excluding, or sometimes called "squeezing out" any of the smaller stockholders? A.—None whatever, sir, not one; there was every opportunity given, and it was the unanimous decision of the shareholders, there were no objections whatever, and any shareholder who did not feel like paying up his additional amount he could convert it into—he could sell a portion of his stock and apply the money in paid-up; there was not one solitary dissatisfied shareholder by the change.

Q.—I did not mean so much dissatisfied, because a shareholder might not express any dissatisfaction, and yet the result of suddenly calling up the stock which had lain in a shallow condition for a quarter of a century might perhaps embarrass and result in freezing out people who would have been very glad to stay on? A.—We took every means of providing against that, and did it effectively; for instance, if a person had $10,000 of stock with $1,250 paid up he could get $1,250 of fully paid-up in place of having $1,250 unpaid.

Q.—That would let some loose for others? A.—I cannot recall a single case but what was paid up; there was no difficulty whatever in borrowing money on the stock to pay for it; there was no dissatisfaction whatever, no person squeezed out.

Q.—Do I understand you to say you do not recall instances in which the shareholder did not take up the stock? A.—No, there was no case, everybody paid up

Q.—The shareholding remained the same, in the same hands, as the result of that transaction? A.—There are occasionally changes in the holdings of the stock all the time, but I am not aware of any case where the stock was sold because of the additional amount called up.

Q.—You think there were changes, however, in the holding? A.—Not on that account so far as I know, but there are changes from time to time, every few weeks there are changes.

Q.—You are not able to attribute any change in stockholding that took place then or about that time to the fact that the call had been made? A.—No sir.

Q.—You know it might possibly be said that it would be to the advantage of those who desired to increase their holding, and that while they might purchase without any objection from the other party yet it would be increasing the holding on the part of some as against others? A.—I have no recollection of it having resulted in that in any single case.

Q.—Perhaps I may put the question directly to you: Was the holding in any stock in which you were beneficially interested increased as the result of that calling up? A.—I have no recollection of any case of the kind whatever. I do not think there was, but my holding has been increased from time to time.

Q.—At present I am only concerned to learn whether your holding increased by virtue of the calling up? A.—No sir, no person obliged to sell or forced out at all, but the holders all continued so far as I know.

Q.—I was not speaking of it as a matter of being forced out, after your answer to my first question, but rather whether or not it resulted indirectly in benefit to those who were in control of the stock of the company? A.—If it did I am not aware of it.

Q.—I suppose a close inspection of the changes that took place about that time will probably disclose how that was? A.—Yes. A man might after paying up his stock have sold a portion of it because his holding would be larger than he wanted to carry; that would be quite natural but no person was forced to do it.

Q.—That would be within the principle I am speaking about, if the result was an increase in the holding of those who were in control of the affairs of the company? A.—Yes, there was no protest made

32nd day, May 30th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

whatever against it that I am aware of, not one.

Q.—I take up the list of shareholders furnished me officially by your company for the year as at 31st December, 1891, and there are some holdings of stock I want to ask you about? A.—Will you allow me to just make the statement which will probably save both your time and mine and the time of the Court? I assume what you want to know is Have I a controlling interest in the company? And I would say frankly that myself and the members of my family, and the institutions of which I am President own about 57 per cent. of the stock of the company.

Q.—That I was aware of, and I would have expected you to make just the answer you have made. I am however concerned, and you will probably not ask me why, but you will see in a moment, I must ask you in connection with your acquisition of the control some questions; when did you first commence to acquire considerable holdings of stock in the Canada Life? A.—I commenced to acquire it a good many years ago, small holdings, but when I got more considerable holdings it would be about 1888 or 1889, somewhere along there, about the time we came to Toronto.

Q.—The movement to Toronto took place in 1887? A.—It was prior to that.

Q.—You acquired substantial holdings? A.—I bought stock ever since I was connected with the company.

Q.—You always had confidence in the future of the company, to buy the stock whenever you could get it? A.—Yes, sir, I was not able to get very much in the early years.

Q.—I dare say you have often had to pay a great deal for it too? A.—Yes, sir, not more than it was worth though.

Q.—I see in 1891 you were in 1891 you were in your own right the holder of 141 shares? A.—Yes sir.

Q.—Were you then in Toronto with your branch? A.—Yes, sir.

Q.—You spoke a moment ago of certain institutions with which you were connected, what had you in your mind then? A.—I had a company of which I am the President, the Central Canada Loan & Savings Company.

Q.—When was that company organized? A.—In 1884.

Q.—And it carried on its business in the first instance in Peterborough? A.—Yes, sir, and does yet.

Q.—And had not it moved its head office to Toronto? A.—Yes, it had an office in Toronto, but still in Peterborough too.

Q.—Is the head office in Toronto? A.—Yes.

Q.—That is cognate to the subject exactly at the present moment, and I shall have to ask you later on, but I will ask you now, when did you become connected with the management of the Bank of Commerce? A.—In 1886, I think.

Q.—And the following year your insurance branch was moved here? A.—Yes sir.

Q.—Was it in 1886 you became President of the Bank of Commerce? A.—No sir, 1890.

Q.—You were four years on the Board? A.—Two years a director and two years Vice-President, and since that President.

Q.—You were four years on the Board? A.—Two years a director and two years Vice-President, and since that President.

Q.—Then is there any other institution upon the list of shareholders at the end of 1891 besides the Central Canada as to which you are interested? A.—The Toronto Savings Company, in which I am interested as a shareholder now, not a very large amount.

Q.—What other institutions? A.—These are the only two I think in which I am specially interested.

Q.—Are these two companies companies in which you are in control as you are in control of the Canada Life? A.—Yes, sir; I hold a majority of stock in both.

Q.—Those are the only two you have in mind? A.—Yes, and that represents fifty-seven per cent. of the stock.

Q.—The members of your family you said are stockholders, and is there any stock which appears in trust, are all the holdings plain upon the face of the stockholders' list? A.—No, sir, there are other holders in which the company is interested, my own stock, 642 shares stand in my name, my son has 80 shares, and my late wife's estate has 90 shares, and that is that, and what is owned by the Central Canada, I do not remember the holding, it is not all in the name of the Central Canada, but I am giving you their full holding when I say 57 per cent. of the stock of the company is held by myself, by my relatives and by institutions of which I am President.

32nd day, May 30th 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—That is quite a comprehensive answer; perhaps you could tell me by reference to this list where there is any interest which is not apparent upon the face of the list? A.—I am not sure that I can do that, because some of these men who are holding the shares have the right to take it, if they want to, and just to what extent that has been carried out I cannot tell you without getting particulars, but it would not change the general result —about 57 per cent. of the holding is what is owned in the way I have stated.

Q.—Then perhaps I won't trouble you with that just now at all events; it may become material to ascertain some more about it; when did you first have aspirations towards a seat upon the Board? A.—I had aspirations to be President of the company when I became local agent in 1862.

Q.—When did you have something higher and more sanguine than aspiration, when did you think you had a prospect and right to go upon the Board? A.—I went on the Board——

Q.—Mr. Watt says 1892? A.—It would be about that time, I think it would be in 1890.

Q.—I think not. I do not think you got upon the Board till 1892, but you probably were looking forward to it as early as 1890, and were investing more largely perhaps in the stock with that in view, is that substantially right? A.—I can remember quite well the circumstances under which I decided to go upon the Board.

Q.—That would be interesting, if you feel at liberty to tell us? A.—It would be introducing personal matters to some extent, but when the Central Canada removed here, at the same time that it removed here to take charge of the western Ontario business——

Q.—I do not think you have given us the date? A.—Yes, it would be 1887, shortly after I became President of the Bank of Commerce I decided to remove to Toronto, and the Central Canada Loan Company, an institution which I organized and the head office of which was in Peterborough, was removed to Toronto at that time, an office remaining in Peterborough. An agreement had been—in the first place the new building of the Canada Life was then about being erected, it was under construction. My idea was to have the east wing of the building for the head office of the Central Canada. The Canada Life had already decided that they would occupy the west wing for their Eastern Ontario Branch. The Bank of Hamilton was removing to Toronto about the same time, and they wanted the same office, the east wing of the Canada Life building. Mr. Ramsay told me he was in some difficulty to know just how he woud decide between the two, whether to give it to the Central Canada or the Bank of Hamilton. I said, What you will have to do in that case is to give it to whoever pays the highest figure for it. Well, after, he said to me, I do not see any reason why the west wing of the building would not answer the Central Canada and the Canada Life both, the eastern Ontario branch of the Canada Life, it is a pretty large building. I said, that would suit me first-rate, I would be very much pleased with that. That arrangement was made verbally between Mr. Ramsay and myself, and alterations were made in the west wing of the building for the purpose of accommodating the two companies, that is the eastern Ontario branch of the Canada Life and the Central Canada Compaiy. While these alterations were going on in the meantime the Bank of Hamilton rented the east wing of the building, and when we were within a few weeks of moving the Central Canada into the office, Mr. Ramsay came down very much concerned and very much upset because two of his directors had objected to the joint occupation of that office by the Central Canada and the Canada Life. In the meantime the other office I wanted to get had been shut out.

Q.—The Bank of Hamilton had got that? A.—The Bank of Hamiton had got that in the meantime. Mr. Ramsay kept perfect good faith, it was not his fault at all; there was no misunderstanding with him and with me as to the bargain that was made, and the misunderstanding that was arrived at, but these gentlemen objected to it on the Board, and the result was that Mr. Ramsay said if I insisted upon it it would be carried out, and that it would place him in an exceedingly unpleasant and awkward position with the directors. He said, while I made that arrangement with you, and while I feel sure I reported it to my directors at the time, there is no trace whatever of it in the minutes, and I feel sure in my own mind that they knew about it and were in accord with it, but I have nothing to show that, and I am in the position I am in. I said, All right, Mr. Ramsay, I will withdraw my claim to it. Then and there I decided to go upon the Board. I went on and

the other gentlemen went off, and that is the secret of the thing, whether it is right or not, creditable or discreditable that was the fact.

Q.—Is it fair to say that for some time prior to your going upon the Board the question of your going upon the Board was a matter that was causing considerable concern in the Board itself? A.—I could not tell that before I went there, but the only indication I have is a private minute, a copy of which you have, and where a resoultion was moved for my dismissal rather than admission to the Board, and two gentlemen voted for the resolution and all the others voted against it

Q—There were discussions in the Board as you are now aware with respect to the desirability of having you come upon the Board or having you acquire a controlling interest in the stock? A—Yes, I think that was confined to two gentlemen on the Board, the same two gentlemen.

Q—And as you say the minute you speak of has been furnished to us; I find that on the 1st December, 1901, a resolution was offered by Mr. John Stewart, with the request that it be laid upon the table for consideration at the next meeting of directors? A.—Yes.

Q—"Resolved that in view of the continued acquisition of shares in the capital stock of this company by brokers and others who do not disclose their principals, and the consequent imminent danger of undue influence, if not controlled, falling into the hands of one or more persons, it is the duty of the directors to exercise their discretionary power in regard to transfers of stock and in the future to decline to sanction all such as in their judgment may tend towards said undue influence or power." That seems to be a general protest against undue influence getting into any hand? A.—Yes.

Q.—Then the other part of the resolution is perhaps more direct in its reference: "Resolved, further, that this Board emphatically disapprove of any employee of the company acquiring or seeking to acquire such preponderance of the capital stock as might at any time in the hands of and under the control of such employee endanger the independence of the company or its management, and that therefore it will be the bounden duty of the directors to remove any officer or officers who give reason to fear that they are engaged in any such ——"? A.—I think in the face of such a resolution as that if you had been in my place you would have got control too.

Q.—Do you say at that time you were aware of that? A.—Practically I was, because if you read further you will see Mr. Ramsay had interviewed me, in which interview he told me the same thing practically.

Q. You were aware of the attitude of the gentlemen referred to? A.—Yes.

Q.—And you desired to have that inimical influence removed from the Board? A.—That was my life work, I have spent 45 years of my life in building up that company.

Q.—But your life was very full of other matters then? A.—Up to that time and ever since that company has been my first consideration for 46 years.

Q.—On the 21st December, a week later: "The following memorandum by the President as to his meeting with Mr. Cox upon the 16th instant was read. As requested by the Board of the 7th instant I saw Mr. Cox," etc. (Reads to the words "to be really for him.") Was there any justification as to that? A.—If you will read on.

Q.—"That I had not, however, had any evidence that that was the case, and I did not feel, etc. (Reads down to the words "purpose of his obtaining them.") Let me pause there for a moment, what is the reference there to the price precluding the idea of ordinary investment? A.—They thought the price I paid indicated that I was paying too much, but I was not in my opinion; the shares cost me about $160, and I think they are worth $250 yet.

Q.—"To this Mr. Cox replied that the shares alluded to were for him," etc. (Reads to the word "was in my power.") That is the account of the interview, is that according to your recollection in all respects an accurate report of the interview between yourself and Mr. Ramsay? A. Practically so far as I remember.

Q.—One observation I notice here is you stated to Mr. Ramsay that you had purposely not told him before of the interest in the transfers that were being brought out to keep him unconnected with the object you had in view? A.—I felt that Mr. Ramsay, in the position of a salaried officer of the company, if he took sides with either of the contending parties it

would not be pleasant for him, and knew that it meant either the retirement of these gentlemen or myself from the Board, and I did not want to have anybody else suffer but myself, if I went; I did not want him to be affected. So far as Mr. Ramsay and myself were concerned we had always been and are up to the present time on the most friendly terms, and every other director of the company, every one of the Directors remained on the Board until they were removed by death or still remain there.

Q.—I see Mr. Ramsay's report states that you desired to do nothing in any way to affect the interest of the company or the personnel of its Board of Directors; that would be hardly an accurate account of your position then, you were not satisfied with the personnel in respect to the two you have spoken of? A.—Yes I was, if we went along agreeably together which we did for eight or nine years. I think these gentlemen remained on the Board till 1900.

Q.—You told me a little while ago when this difficulty about office accommodation took place you made up your mind you would go upon the Board or they would go off? A.—I went on and then I did not feel so much like having them go off; we got on very agreeably for quite a long time.

Q.—There is a reference here I want to ask you about; Mr. Ramsay said that you had intended at some period as your other duties might make desirable, to invite the Board under some arrangement as to the joint management of the Toronto Branch to allow you to withdraw from it—that has reference to what? A.—It has reference to my withdrawal from the joint management of the eastern Ontario branch, and if you follow up that correspondence you will see that I decided later, and I said that in a letter to Mr. Ramsay that I would prefer to remain as—that if my appointment as a director necessitated my resignation as branch manager I would prefer not to be a director, and it was decided that I could go on the Board and remain as branch manager for a time.

Q.—You said apparently to Mr. Ramsay at that time that you would invite the Board to withdraw from the management under some arrangement as to the joint management? A.—The arrangement would be that my son would succeed me in the management.

Q.—He was then in partnership with you? A.—No sir, it was my second son, my youngest son who is now the manager of that branch. My son who was at that time my partner is now General Manager, that is E. W. Cox. Now I have reference to Mr. H. C. Cox taking the management.

Q.—That is what you had in mind at the time of this conversation? A.—Yes.

Q.—Then the minute proceeds: A letter of 19th December, 1891, addressed to Mr. Ramsay (reads this letter) "Some 600 shares have been purchased by personal friends of my own." Among how many would those 600 shares be distributed? A.—Not a very large number. I could not remember now. Five or six perhaps. Perhaps not that many.

Q.—These shares now are vested apparently in you? A.—A portion of them. Not all of them. Several of the parties are still holding the shares and others again do not. As I mentioned a little while ago some of these men bought it with the option of keeping them or practically made a loan on them with the right to retain them if they chose at a later date and in most cases they retained a portion if not the whole of them.

Q.—I suppose there will be no objection, should it become necessary, to take the stock list for the last meeting and finding out just how these various shares stand? A.—Yes, there is no difficulty in that.

Q.—Then this letter contains the first suggestion that you should vest a large proportion of the stock that you control in the hands of trustees? A.—Yes.

Q.—Giving the trustees the voting power upon it? A.—Yes.

Q.—And Mr. Ramsay was to be one of the trustees? A.—Mr. Ramsay, Mr. Gates and Mr. Byron E. Walker.

Q.—Afterwards it was Mr. Ramsay and Mr. Gates? A.—The president and vice-president respectively.

Q.—Mr. Walker was associated with you in Bank of Commerce affairs? A.—The General Manager of the Canadian Bank of Commerce.

32nd day, May 30th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—Then the next document in this Exhibit 178 is a resolution. (Reads this resolution to "This Board will not raise any objections to his election to the Board.")

A.—Would you just finish that right on, because that looks inconsistent with my first attitude. I was quite prepared to bury the hatchet at that point, but these gentlemen immediately started to get legislation to legislate me out of existence, which I resented, and that fight was continued.

Q.—That we will see in a moment. I am going to try to do the whole subject complete justice if I can, Mr. Cox. Now did you understand, pausing here and not looking forward for a moment, that you had expressed concurrence in the opinion that no man ought to have a controlling interest in the stock? A.—I did not say that, no, sir. I don't think there is anything wrong in it at all.

Q.—I did not gather that you had expressed any such opinion. The Board however "Takes this opportunity of expressing concurrence" in the opinion, that is in Mr. Stewart's resolution, and they are "Pleased to find from the letter of Mr. Cox that he concurs in that view." You did not concur in that view? A.—You have the letter there.

Q.—You did not concur in that view, that was an error so far as this resolution was concerned? A.—Yes, I was quite prepared to act entirely in harmony with the Board, but as you will see later on, these gentlemen were not. They wanted them to get legislation that would practically——

Q.—Prevent you have a controlling interest in the stock? A.—Practically forfeit my rights.

Q.—I am coming to that, but from point to point as we go, I want to see that there is no erroneous opinion formed as to your attitude. This, it seemed to me erroneously, speaks of what your opinion was? A.—Yes, it does.

Q.—Because I do not think your letter expresses any such opinion? A.—No, sir.

Q.—Then on the 26th of December you write this letter to Mr. Ramsay. (Reads this letter.) What are you referring to these when you say the resolution differs in some important particulars from your letter? A.—Well, just what we have pointed out.

Q.—Just the matter I have asked you about? A.—Yes.

Q.—And introduces subjects not hitherto discussed? A.—Yes, they were speaking of getting legislation at that point.

Q.—No, there is nothing about legislation hitherto. This is all in December. Then the Board held a meeting on the 1st of February and two letters seem to have been read; one from you of the 30th of January and one from the late Chief Justice Burton of the same date? A.—Yes.

Q.—He was a member of the Board? A.—Yes.

Q.—Your letter I read first. (Reads this letter.) Now I want just to refer to a letter which is not here. Can you get me the letter enclosing the resolution? A.—I do not know what letter you have reference to.

Q.—You have said here, "In further reference to your favour of the 22nd ult." A.—That is in further reference to Mr. Ramsay's letter.

Q.—Now Mr. Ramsay's letter is not among the correspondence which has been furnished me so far as I know. It is dated the 22nd December. A.—I don't know whether I can get it or not. I fancy I can. I do not think there is any doubt but what we can, because all the records are in the company's office.

Q.—No doubt. All I want to get at is this, it must have been in that letter, because there is nothing in the resolution, that reference was made to getting legislation. A.—No, there is nothing in the resolution, but it was upon that point.

MR. NESBITT: I think Sir George Burton's letter makes it clear what they were.

MR. SHEPLEY: I know what they were, but if there was a letter from Mr. Ramsay enclosing that letter. which there seems to have been on the 22nd of December, 1891, I should like to see that. If there is that letter no doubt it will be got for me and I will not delay now. A.—In the meantime the subject of legislation had arisen and that was the point upon which we differed again. As I say in my letter, I was prepared to support any legislation for the general interests of the company but I did not want a special Act.

Q.—Not any legislation which was levelled at your acquisition of a controlling interest in the stock? A.—No.

Q.—Then you were no doubt aware that some of the life companies have clauses in their charters preventing a controlling interest being vested in any one person? A.—Yes, I know that there is in some companies. I know

one company that I can recall at the moment.

Q.—Which is that? A.—The Confederation Life.

Q.—I think there is in the North American Life also? A.—Still both of these companies are controlled by one man without any doubt at all. It is well known that both of these companies are controlled in each case by one man.

Q.—It is so in the Confederation Life. At all events it was legislation of that sort which you understood to be in contemplation? A.—Yes, sir.

Q.—Did you have any communication with Sir George Burton before he wrote the letter of the same date, was that written after consultation with you or was that written independently? A.—I cannot tell. I have no recollection of having any discussion with him and it is not likely that I did, because I think that Mr. Justice Burton was——

Q.—Mr. Justice Burton was, so far as you are aware, probably opposed to anybody having a controlling interest? A.—Yes.

Q.—Then on the 30th January Mr. Burton wrote to Mr. Ramsay? A.—I might have had a discussion with him but I cannot recall it. I would not say that I had not, but I have no recollection of it.

Q.—He does not refer to any conversation with you. (Reads the letter referred to.) A.—Is not that very valuable information from a very distinguished man? It is an expression of opinion from a very able man as between mutual and stock companies, and a very sound opinion, too.

Q.—It is my duty, Mr. Cox, to get all the valuable information I can and lay it before this Commission. Do not misunderstand me; I am not an advocate here at all; I am trying to get the best opinions I can upon all these subjects? A.—The latter part of that letter refers to legislation the company was getting with reference to permission to erect head office buildings, I think. I think it was in connection with the power to hold real estate for the purposes of the company.

Q.—But not for the purpose of erecting head office buildings, because they had a head office building then? A.—Then perhaps it was the Montreal building. They wanted additional power to do something they had in contemplation.

MR. BRUCE: Make it clear that they had power to do what they had done.

MR. SHEPLEY: Then follows a resolution moved by Mr. Stewart and seconded by Mr. William Hendrie. (Reads this resolution.) There was no uncertain sound about that? A.—No, that is the point upon which we joined issue after I was wanting to bury the hatchet.

Q.—Was there at that time any question just under the surface about the head office perhaps being brought from Hamilton or did that arise subsequently? A.—Subsequently,

Q.—They were not thinking that your coming upon the Board was perhaps the thin end of the wedge to take the institution from Hamilton? A.—If they did I did not. I had not any idea of the kind at the time.

Q.—That was not mooted at that time? A.—I don't think so. I have not the slightest recollection of it. I don't think it was in mind at the time.

Q.—"After some discussion the motion was declared to be lost." The ayes are Mr. Stewart and Mr. Hendrie, and the nays Messrs. Innis, Gzowski, Gates, Brown, Merritt. Mr. Ramsay, the President, does not seem to have voted. Then you went upon the Board in pursuance of what was done? A.—I think in 1890, if I remember right.

Q.—This was in 1891. A.—Well, I think I went on the Board in 1892.

Q.—That seems to be so from the minutes, you were elected in the following election in 1892. Now at the time or prior to your going upon the board there was some conveyancing done vesting stock in trust? A.—Yes.

Q.—It is dated the 31st March, 1892, and is between yourself of the first part, Mr. Ramsay, Mr. Gates and Mr. Walker, herein called the trustees, of the second part and the company of the third part. It recites that you are the holder of certain shares in the capital stock of the company. It is agreed that 400 of such shares shall be forthwith transferred to the trustees and shall be held by them until the next Annual General Meeting of the Company, and if Mr. Cox be then elected a director of the company, thence

32nd day, May 30th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

forward so long as he shall hold the position or office of a director of the company the 400 shares shall during all such time be in every respect under the control and management of the trustees and free from the control or government of the said George A. Cox, except as herein mentioned. Then you are to be entitled to receive the profits upon the shares and to have the right to sell the shares upon the concurrence and approval of the trustees and subject to the terms of the Company's Act and to the sanction and approval of the directors. Upon your ceasing to be a director the shares or such of them as shall remain are to be transferred to you or your executors as the case may be. Then there is a provision for replacing any retiring trustees. You are to pay all calls and indemnify the trustees against all payments in respect of the shares and the agreement is to apply to the successors of the company and to your executors administrators and assigns. That agreement seems to have been drawn by the solicitors of the Company. A.—I presume so.

Q.—Had you anybody acting for you in the settlement of it? A.—I may have had, and I may have acted for myself. I don't remember.

Q.—Do you remember whether there was any discussion in which you took part as to the clause revesting the shares in you upon your ceasing to be a director? A.—I think the agreement explains exactly what it was. I was not to ask for the return of them so long as I remained on the Board, and when I did ask for the return of them I tendered my resignation.

Q.—Yes, I am coming to that. You do not remember, or do you I would like you to take time to reflect, because it seems to me of some importance, you do not recall as I understand you now whether there was any discussion upon that clause? A.—I cannot recall that there was any discussion at all.

Q.—And you do not remember whether that clause was in the agreement as originally approved by the solicitors for the company or whether it was the result of negotiations. A.—No, I do not remember any discussion about it. I think that was just the agreement that came out. Very likely Mr. Bruce would be the person who drew the agreement.

MR. BRUCE: Very likely I was, but I cannot answer that question any more than you can.

MR. SHEPLEY: It was drawn by my learned friend Mr. Bruce, there is no doubt about that, but there was some discussion about that clause afterward and I wanted to find out what discussion there was at the time, if any. The agreement did not go on to provide that if you ever sought re-election to the Board after once resigning and getting your stock, that you should again vest the stock? A.—No, sir, I don't think it did. I am quite sure it did not.

Q.—It is manifest that it did not and you do not remember whether that was discussed or not. A.—I do not. I have no recollection of it.

Q.—I do not want to suggest anything that is not quite fair, but is it not manifest that if you had the controlling interest in the stock this vesting while you were a director was illusory if you chose to resign? You could resign and be re-elected with your controlling stock. A.—Well, I did not resign at all, because they waived that and gave me back the stock without.

Q.—I am speaking now about the effect of the agreement and I want to see whether that will recall it to your mind, as to whether there was any discussion at the time. A.—I don't think there was. Mr. Bruce would be likely to remember it if there was.

Q.—You can, of course, see that if after vesting this stock you had desired, notwithstanding its being vested in the trustees, to assume control, all you had to do was to resign and be re-elected.

MR. NESBITT: Not until the next year.

MR. SHEPLEY: Resign on the 31st of December and be re-elected at the Annual Meeting. You can see that that was possible. A.—Possible, yes.

Q.—I do not say that it was intended but that was possible. A.—Really everyone of the directors and shareholders, so far as I know, were entirely in accord with my policy all through with the exception of these two gentlemen, and there has been no division on the Board, no difficulties whatever. The same directors remained on the Board until, as I say, they were removed by death.

Q.—Of course you know that there was besides these two directors, a very

wide spread feeling on the part of the members of the Board that it was not desirable to have any particular person in control of a majority of stock? A.—I do not think that that feeling extended beyond the two gentlemen to whom I have already alluded, and who would themselves very likely have been holders of the majority.

Q.—Mr. Justice Burton himself seems to be in sympathy with that policy but he seems to think it better to agree with you to vest the shares than to go to the Legislature, and the resolution says they are glad to find that you are in accord with their opinion that it is not desirable that there should be control. A.—I don't know what you mean by control. I have not interfered with the policy of the company.

Q.—Potential control? A.—On the policy of the company, I do not think we have ever had a division upon the Board upon any question through all the time.

Q.—That of course does not affect the principle. The question of principle which was affecting the Board at that time was whether it was desirable from the standpoint of the Company that one person should be in a position to exercise control? A.—Well, Mr. Shepley, the person who is for the time being entrusted with the presidency or general management of any institution has the control of that during the time that he has the confidence of the shareholders.

Q.—He has the executive control? A.—Yes.

Q.—If he ceases to have the confidence of the directors, unless he controls the majority of the stock he can be removed? A.—If he ceases to have the respect and confidence of the public outside of the shareholders altogether, he has got to get right off. It is by doing what is right—

Q.—We have got to test the principle by assuming the extreme case. I am not assuming it for the purpose of this particular case but for the purpose of testing the principle; it is either desirable or undesirable that a person whose management is objectionable should be able to remain in control by having a majority of the stock? A.—I do not think that a man whose management was objectionable could retain control of a company of this kind even if he had all the stock. I think that public opinion would put him off at once if he was not doing what was right.

Q.—Leaving public opinion out and its acknowledged weight in matters of that sort, the man in the case supposed can keep himself in power by his own vote? A.—I do not think he can. What is the power of this Royal Commission, this Honourable Court now?

Q.—It cannot take your stock away from you or depose you from your position? A.—They have access to every document in our company and can do everything they like with them.

Q.—You are too logical a man, Mr. Cox, to answer the question that way if you reflect for a moment. You must assume for the purpose of testing the principle that it is possible for a man whose conduct of the affairs of the company is perhaps for the purpose of wrecking it, if he has the majority of the stock it is possible for him to do that and nobody can say him nay? A.—Do you think one person could do that even if he owned all the stock?

Q.—If he owns all the stock, yes. A.—I think that public opinion would interfere and prevent him from doing it. I do not think that any injustice to a large body of policyholders would be allowed by the community if a man did want to.

Q.—The community has not yet reached the point where they can confiscate your property or mine except by legislation.

MR. NESBITT: This is a matter of argument.

MR. SHEPLEY: Yes, my learned friend is probably right about that.

MR. NESBITT: The Timothy Eaton Company is an example of absolute control with a magnificent result.

MR. SHEPLEY: For the shareholders. I am not saying that it is not to the advantage of this company. My learned friend should not object to my asking the witness this question.

MR. NESBITT: I am not objecting.

MR. SHEPLEY: Then you went upon the Board, your stock was vested in the trustees and you worked harmoniously there I think you have told me already, from 1892 to 1896? A.—Yes.

Q.—Then in 1896 you desired, if I have correctly interpreted what we have here, to eliminate the trustees? A.—I think you have a letter there which I wrote to the Board.

32nd day, May 30th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—Yes, there is a letter which we have not got but we know what its contents were generally. The letter of the 16th of October written by Mr. Cox. In 1896 on the 19th of October there was a Board meeting and "after full consideration of Mr. Cox's letter of the 16th," that is the letter I want, "requesting that the Board consider the matter of a release of a portion of the 400 shares of stock standing in the names of the trustees for the purpose described in the agreement of March last." There was not an agreement of March '96 was there?

MR. BRUCE: No, it is the 31st of March, 1892, that is meant.

A.—A copy of that letter I think is in the documents you have is it not?

MR. SHEPLEY: I do not think so. Probably its contents are sufficiently disclosed. "Requesting that the Board consider the matter of a release of a portion of the shares of the company's stock standing in the names of the trustees for the purposes described in the agreement of 31st March, last." That is 31st March, 1892. That would seem to be just a slip. (Copy of the agreement filed as Exhibit 180.) "Also his letters of 4th and 6th May." Would there be a copy of those letters in your books somewhere? A.—I think so. I thought they were in those documents.

Q.—"It was thought that the Board could only properly do that" (reads to) "without other ulterior object." A.—That is quite true, there was no ulterior object.

Q.—Then on the 18th January there is a reference in the minutes to a letter of yours of the 16th. Perhaps it is the same letter. On the 25th of January the Board met again and there was then another letter of the 25th of January, 1897, from Mr. Cox. At the meeting the subject was deferred and it was again deferred on the 1st of February, 1897. Then on the 8th February the letter of the 16th January, 1897, is spread out and also the letter of the 25th of January? A.—That is what I thought, that you had them there.

Q.—On the 16th of January you wrote to Mr. Ramsay (reads this letter). Then on the 25th you wrote (reads this letter). You told me I think, that up to the time that his question of the transfer of your stock arose you had always acted harmoniously upon the Board, that you and the other directors had had no jarring? A.—No, sir, we had not.

Q.—Then had you thought it at all a drag upon your conduct as a director that a portion of your stock should be in the hands of trustees? A.—No, sir.

Q.—You had intended when you transferred the stock to the trustees, I assume, to leave it there? A.—For a reasonable time. It was left there for several years.

Q.—The agreement says nothing about a reasonable time? A.—You asked me what my feeling and intention was at the time, and I say a reasonable time. As I say in my letter, I explained why I think that the time had come that I should get my stock back again.

Q.—You thought perhaps that your conduct while the stock was vested in trustees had been such that they ought to be satisfied that there was no ground for their original fear, was that it? A.—Yes, and that is so and that has continued right down to the present date. I do not want to wreck the company, I am more interested in it than any other living man and why should I want to injure or destroy it or do anything to militate against the company I cannot understand.

Q.—It is manifest that in 1896 there was still that prejudice, we will call it for want of a better word, in the minds of some of the members of the Board against one individual having a controlling interest in the stock? A.—Yes.

Q.—And it was to satisfy that prejudice that you had vested the shares in trustees? A.—Yes.

Q.—That prejudice still existed, but notwithstanding that you desired to have the stock taken away from the trustees? A.—Yes, I thought I had left it there long enough.

Q.—Then there is a memorandum of an interview between the president and yourself and Mr. Stewart also, set out in the minutes. Had you increased your holdings between the time 1892 to 1896? A.—I have increased them steadily all along, even in the last few weeks.

Q.—Was it Mr. Andrew Allan of Montreal who is referred to here? A.—Yes.

32nd day, May 30th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—You were desirous of having Mr. Walker come upon the Board? A.—Yes. Mr. Allan and Mr. Thomas had been some 12 or 14 years on the Board and neither of them had attended even an annual meeting once; they were no use to the company and I wanted to get someone who would be. They drew their annual fee for all these years and never once attended even an annual meeting, let alone a Board meeting.

Q.—You wanted to have Mr. Walker take their place? A.—I wanted some good man to take their place who would give some attention.

Q.—Your proposal was to substitute Mr. Walker for Mr. Thomas? A.—Yes.

Q.—And Mr. Ramsay's counter-proposal was that both Thomas and Allan should leave? A.—Yes, and Mr. Bruce and Mr. Walker go on.

Q.—Then there was a suggestion that legislation should be obtained giving the policyholders representation upon the Board and it is said that you undertake to give your active support in obtaining the legislation necessary for that purpose? A.—Yes, I did that.

Q.—And it is suggested that Mr. Lash should be retained. Mr. Lash's professional connection was with the Bank of Commerce, I think. Well, he was acting for me in that matter.

Q.—I say his professional connection; he would be acting for you in this matter. A.—Yes, he is solicitor for the Bank of Commerce. His firm have been solicitors, I think, for the Bank for many years, and are yet.

Q.—And he is, besides, your private solicitor? A.—Yes.

Q.—"Therefore upon full consideration the Board sanctioned compliance with Mr. Cox's request." Now I see that this request of your's commenced with a portion of the stock and it ended with the whole of the stock being released from the trust? A.—Yes.

Q.—How did that come about? A.—I do not remember. I think I requested the release of that portion of my stock which was held. I do not remember any discussion at any time of dividing the 400 shares. It may have been, but I asked for a release of the stock in my letter.

Q.—At all events what the minute directs was carried out, the trustees released the stock and you remained upon the Board? A.—Yes, and the legislation was obtained.

Q.—Mr. Bruce took the other position upon the Board, vacated? A.—Yes, and the legislation was applied for and obtained giving six directors to the policyholders.

Q.—You told me, I think, that in 1891, when the matter was under discussion and the trust agreement was prepared, there was no undercurrent of agitation about moving to Toronto? A.—I have not any recollection of it.

Q.—Was there in 1896-7 when the stock was re-transferred? A.—I do not think so.

Q.—Can you between now and to-morrow morning refresh your mmory as to that? A.—I will try. I have no recollection of it now.

Q.—In '96 you commenced to ask for your stock back and in '97 you got it back. Now between '92 when you placed it in the trustees and the time when you took proceedings to have it come back to you, during that time had there been any question about it? A.—If I remember the dates rightly it was in '96 that the legislation was obtained for policyholders' directors.

MR. BRUCE: In 1899 legislation was obtained providing for policyholders' directors? A.—Yes? Well, I will try and think about that. I have no recollection of the matter being the subject of discussion at all until about the time they were getting the legislation.

MR. SHEPLEY: This is, perhaps, a convenient time to adjourn because of the close of a particular subject. Then I understand there is a difficulty about meeting to-morrow owing to some private matters?

JUDGE MacTAVISH: Yes, we will adjourn now until Friday morning at half past ten.

(At 4.50 adjourned to Friday, 1st June, at 10.30 a. m.)

THIRTY-THIRD DAY.

MORNING SESSION.

Toronto, Friday, June 1st, 1906.

CONFEDERATION LIFE ASSOCIATION.

MR. SHEPLEY: Colonel Macdonald has communicated with me a

33rd day, June 1st, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

matter upon which, as he tells me he desires to make some statement with regard to his testimony while he was being examined by my learned friend Mr. Hellmuth, if Your Honors would permit him to do that.

JUDGE MACTAVISH: Certainly.

W. C. MACDONALD testifies as follows:

There were several points in my evidence which are errors, but I will pass them over and let them go and come to one or two points in the evidence in regard to which I should like to make some corrections in the figures that were quoted and to furnish the authority for the statements which I made in regard to the Government Insurance Department of New Zealand. The source of my information and its reliability seems to have been doubted. Before referring to the New Zealand matter I would just ask that a correction might be noted in regard to the evidence on page 927 of the printed proceedings in the first column, regarding policy number 9542, ten payment life for $2,000. By consent Mr. Hellmuth and myself agreed to refer to this for convenience as a one thousand dollar policy, but Mr. Hellmuth continued to quote the premiums for the two thousand dollar policy, and I overlooked to call his attention to the inaccuracy. The figures as to the premiums paid, $1,100 should be divided by two.

MR. HELLMUTH: Yes, that is quite correct, but I think you will see, Mr. Macdonald, that the profits also should be divided by two? A.—Yes, quite right Mr. Hellmuth.

Q.—If the premiums are divided by two the pronts should also be divided by two? A.—Yes; we agreed for convenience to refer to it as a one thousand dollar policy.

JUDGE MACTAVISH: I see in Mr. Hellmuth's question on page 927 these words occur: "He says that in 1887 when he had paid 7 premiums he received $92 profits. That in 1891, after he had paid in the whole of his premiums, $1,100, he received $96 as profits for four years"—those are the profits on a two thousand dollar policy? A.—Yes.

Q.—And the premiums are also premiums on $2,000? A.—Yes, either those items should be divided by two or the amount of the policy should be doubled. Then referring to my evidence on page 931 at the foot of column two and following page I stated that the balance of the business over the amount that was carried by the New Zealand Government Insurance Department, which was quoted by Mr. Hellmuth at fourteen millions, out of this approximately nine millions was carried by the Australian Mutual. I would just like to quote from an official document in substantiation of that, as I think Mr. Hellmuth doubted the correctness of that. I do not say—

MR. HELLMUTH; Not at all, my idea was that there were nine millions of New Zealand Government insurance as against fourteen millions of all the other companies, but what the proportion was of the other companies I did not know. There was altogether nine millions and fourteen millions making twenty-three millions insurance.

MR. LANGMUIR: Twenty-three millions of an aggregate, of which the Government had nine millions?

MR. HELLMUTH: Yes.

JUDGE MACTAVISH: You do not want to correct your evidence in that respect, you want to substantiate it? A.—Yes, from an official document, but I won't take the time of the Court if it is not considered necessary.

Q.—You want to keep that document? A.—Yes, but I can get more copies of it.

Q.—You might tell us from what source you did receive your information? A.—This is a publication issued by the Insurance Department of New Zealand. It is an extract from the Government Insurance Recorder, which is the official organ of that Department, and these figures are compiled from returns made by the different companies, and are filed in the Treasury Department of New Zealand.

MR. HELLMUTH: What date is that? A.—The year 1904, and I think later figures than those you used, because the amount in the New Zealand Company is greater than the figures you quoted, but these are the figures I had in my mind when I was in the witness box. On page 932 about the middle of column one reference is made to the expenses to premium income in the New Zealand Government Department. Mr. Hellmuth intimated that they were about 12 per

33rd day, June 1st, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

cent. I assented to that quite inadvertently because I knew really better; but I was unwilling when the matter occurred in my mind in the course of my evidence to trust entirely to my memory as Mr. Hellmuth was quoting from books or documents before him. Quoting again from this same official publication I find that the total premium income first year and renewal of the New Zealand Government Department for the year 1904 was £309,239; the expenses are given as £60,490, or 19.5 per cent. The expenses for the business done in that Colony of the Australian Mutual Provident are as follows: Premium income £272,418; expenses £43,559, or 16 per cent. As I stated the other day these are only partial figures, and it would be better to quote the figures for the entire business of the company, which I will do for 1903: I have not got the figures for the 1904 business. The Australian Mutual Provident business 1903, total premiums first year and renewal £1,696,610; expenses £229,986, or 13.5 per cent.; about 50 per cent. less than the expenses of the New Zealand Government Department measured on that basis. On page 932 about the middle of column 2, while Mr. Hellmuth of course does not make the statement, the inference from his question is that the New Zealand Government does not employ canvassing agents?

MR. HELLMUTH: Oh no, I dissent from that altogether. The question is: "Are you aware that they do not pay one-tenth of the amount to agents that an American company of the same size, an average American company, pays? A.—That is only the first half of the question.

Q.—"That they have practically no agency except to collect money, that they do not pay agents commisions on obtaining business at all, are you aware of that"? A.—I understand you adhere to that.

Q.—They pay less than £8,000 of the entire branch and agency department from the figures I have, in New Zealand, that is the figures for 1904? A.—Quoting again from the same official document which is headed "For free circulation amongst the agents, officers, and friends of the Government Insurance Department." You will see that they have all the frills of a modern life insurance company, as I intimated in my evidence the other day. On the back of this we will find a list of the agents, a number of them at least, it does not say they are canvassing agents, I will admit, but we will find in nearly every copy of this issue a photograph of a good-looking young man and a personal notice. I will just read one or two: "Mr. A. F. Oldaker, whose photograph is here produced, was born in Herefordshire, educated at All Saints School," etc. "Mr. Oldaker joined the field staff of the Government Life Insurance Department in 1900 .... He is an excellent agent, a good raconteur, can sing a good song, and his genial disposition procures him a hearty welcome wherever he goes,"—qualifications which would hardly be commented upon if he was merely to be a collecting agent. Another copy, "Mr. Alexander Morton, who is one of the Department's most successful agents, has had a varied career, from sugar planting in Demerara to sharebroking in Auckland .... Mr. Morton is very popular with all classes of the community, and when fairly settled on the war-path conducts his case with the ability of a K.C." "Mr. John Sheridan is a thorough believer in life insurance, he decided to try canvassing for the Government office. At this work he has been eminently successful, having so far completed close on £100,000 of new business for the Department." This is an article from which I will make an extract published on business in London and reproduced in the Government Insurance Recorder. It therefore has all the earmarks of reliability, as I do not suppose this journal would reproduce an article if it were incorrect, that is in regard to the management of that company. Referring to the absolute failure of Government Insurance in England, which I alluded to the other day and intimating that there seems to be something wrong it tries to seek the remedy in the New Zealand Government Department of Insurance. It says, "'In New Zealand they have at least managed to get bulk of business, and probably Mr. Seddon would be very willing to give the recipe. The recipe is very simple—namely the adoption of business methods. There is no natural demand for life insurance. Men have to be coaxed into doing their duty. The Government Insurance Department of New Zealand em-

33rd dav. June 1st, 1906.

Confederation Life.
(Wm. C. Macdonald, Ex'd.)

ploys coaxers, agents, ambassadors, missionaries, to go up and down the country selling an unpopular article. They coax, persuade, and educate people. And the Government helps its agents by circulating effective literature. It paves the way for its energetic out-door staff, and thus secures a rattling good business year after year.' " If these gentlemen do this for nothing they must be very philanthropic. I take up the report for the year 1903 of the financial statement of the New Zealand Government Department as publihsed in their own journal, and which I might remark incidentally is addressed to the General House of Assembly, not to the policyhoders of the company. This apparently must be a stock company, not a mutual one—they have at any rate behind them a large guarantee fund or uncalled liability for the protection of their policyholders. In that statement I find, "New premiums for the year £23,462—leave out the shillings and pence. On the other side of the account I find commissions new £14,681, or 62.7 per cent. of the total first year premiums selected in that year. I find that the renewal commissions paid were only some £2,000, whereas the renewal commisions collected were £276,000. It would appear rather that they employed canvassing agents and paid them more than mere collecting agents. I might add if we add to the commissions paid on first year's business, medical expenses, advertising and other incidental items that are properly chargeable to first year business it will be found that the expenses of the New Zealand Government Department are over 100 per cent., or were in the year 1903 over 100 per cent. of the premiums received. They are not very wide apart in that respect from Canadian Companies. There are other matters I could give information and data that were referred to but I will refrain. I am not here to make out any case for or against Government Life Insurance. I think it is absolutely unnecesasry. I am not here to make out any case against the New Zealand Government Department, but I asked the privilege of coming here and making this statement simply and purely in justice to myself ,as I thought in view of the statements I made in the witness box, the reasons I assigned, I was not prepared to give these figures that I should not have been pressed in the matter quite so hard as I was. I thank the Commission for the privilege accorded me. I may add I have other literature, and I will be very pleased to lend it to Mr. Hellmuth or to any person who wishes. They will find the statements I made are in every respect absolutely correct. If Mr. Hellmuth wishes me to come back and ask me questions later I will be very pleased to answer them, or if he asks other actuaries who follow me they will be equally competent, perhaps even more than I am, to give the desired information, as I think it is information Mr. Hellmuth wants and nothing more. I would wish to say in regard to the figures he quoted, I do not mean to say for one instant they were mis-quoted—

MR. HELLMUTH: I hope at a later date to place before this Board the New Zealand Government returns. I do not think we shall find the figures to be inaccurate, for unless the books sent to me are all mis-quoted I did not make a single incorrect statement, unless those books were wrong? A.—I might add, I will tell Mr. Hellmuth where he fell into error. The ratios he quoted were I think ratios of expense to total income, not to premium income, and that is what led me into the error when I assented to the correctness of his figures.

MR. SHEPLEY: It was not my intention to take up the question of Government Insurance at this stage, but we shall have to do that subsequently in a somewhat different way.

CANADA LIFE ASSURANCE COMPANY.

Examination of Hon. George A. Cox continued:

MR. SHEPLEY: I understand from Mr. Watts search has been made as to the portions of the correspondence that we were speaking about on Wednesday afternoon, but that it has not been found, and cannot be found—that is right, I assume? A.—Very likely written by Mr. Ramsay in his own handwriting, and possibly copied in a private letter book, I do not know. They are not in the records of the office, I am informed.

Q.—We had got so far as to the point at which we were about to discuss the legislation in respect of policyholders, and I want to ask you a question or two with regard to the statute that was passed, that statute was assented to on the 10th July, 1899; up to that time, as I understand it, your

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

policyholders had no voice? A.—No voice, no sir.

Q.—And I understood you to say that it was at your instance and upon your suggestion that the change in the status of the policyholders was brought about? A.—I think that would be correct to say that; I was entirely in accord with it, and I rather think I was amongst the first to suggest it, I won't be positive as to that, certainly I was entirely in accord with it and supported it in Parliament.

Q.—The general purpose of the statute was to enable certain policyholders to vote for directors, but not to give them any other voice in the management of the company? A.—The policyholders directors have the same voice in the management of the company as any other director with the exception—

Q.—But the policyholders have no voice in a general meeting like the shareholders except in the mere matter of electing a Board of Directors? A. —I do not understand the law.

Q.—Let us not have any misunderstanding about that: "At all meetings at which directors are to be elected, a policyholder whose policies in force amount to $3,000 or upwards, exclusive of bonus additions or profits, upon which the full premiums for two years or more have been paid, shall be entitled to vote for the election of directors in the manner herein provided, but shall not as a policyholder be entitled otherwise to vote at such meetings?" A.—It has not been the practice and I did not know that that was the law I do not know any instance in which the policyholders' directors occupy any different position than that of the shareholders' directors.

Q.—Yes, the policyholders' director occupies the same position as a shareholder's director, but the policyholder himself in a general meeting at which elections are taking place, while he can vote for his directors he cannot vote upon any other subject which interests the general meeting? A.—Well, I was not aware of that construction of the law. At any rate I cannot imagine any case where a policyholder at a general meeting, a question that would arise beyond the election of the directors—I do not know that we have ever had a case of that kind.

Q.—I suppose your shareholders do vote upon other subjects at the general meeting besides the elections? A. —I do not know of any case in which there has been ever any distinction at all.

Q.—Perhaps the general meetings are so harmonious that nobody has to vote about anything, that everything is carried? A.—That is true.

Q.—The policyholder who may be elected is a policyholder whose policies in force amount to $10,000 or upwards, and whose premiums have been paid for 5 years or more? A.—That is a qualification for a director, not for a voter.

Q.—The man to whom that qualification applies is eligible to be a director? A.—Yes.

Q.—Then there is a provision with regard to the calling of the meeting, and then there is the provision for retirement of the directors by rotation? A.—Yes.

Q.—The policyholders elect their directors separately? A.—Yes.

Q.—And the shareholders elect their directors separately? A.—Yes.

Q.—And you remember of course the proportion? A.—Yes, two-fifths the policyholders and three-fifths shareholders.

Q.—That is out of a Board of ten there would be four elected by the policyholders and 6 by the shareholders? A.—A Board of 15, that is our Board, there are 6 policyholders' directors and 9 shareholders' directors.

Q. That would be the same thing? A.—Yes, 15 is the number.

Q.—Does it fall that sometimes a person who is a sharehoder, and eligible in that capacity, is elected by the policyholders? A.—Yes sir, there is nothing to prohibit that.

Q.—And from the time this statute was passed have you had always upon the Board policyholders who were not shareholders? A.—No sir, not always; I think the present directors, some of them are shareholders and some are not.

Q.—You have not always had upon the Board one or more policyholders who were not shareholders? A.—Yes sir, we have.

Q.—You say you always have? A. —Always have.

MR. BRUCE: All the directors were shareholders before the Act.

MR. SHEPLEY: Since the Act? A. —Since the Act some of our policyholders' directors are shareholders and some are not.

Q.—How many of the directors since 1899 have been policyholders and not shareholders at all? A.—Three policyholders' directors who were not shareholders: J. Ross, Montreal, Gov-

ernor Bliss of Michigan, and Mr. Chapeau of Montreal.

Q.—Perhaps you have all the policyholders pretty well insured? A.—We have every man insured we can. These men would not be eligible if they were not.

Q.—I see your legisation permits the policyholders to vote by .

A.—Yes.

Q.—In that respect it differs from some other provisions we have seen? A.—Yes in person or by proxy.

Q.—The proxy however must be in the hands of the Secretary 20 days before the meeting at which it is to be acted upon? A.—That was thought to be a wise provision in the interest of everybody.

Q.—Because why? A.—It would be desirable to know who were going to vote before the annual meeting.

Q.—Why would not it be an ideal meeting to have everybody that was entitled to vote represented or in person? A.—We are always glad to have them, and we do everything we can to get them to come, to the extent of giving them lunch and everything else.

Q.—You say it is very desirable to know in advance who is going to vote—whom to know? A.—Everybody to know who is interested.

Q.—For the management to know? A.—Yes, for every person to know.

Q.—That is a little different from some of the legislation we have seen; in some of the legislation the policyholder who wants to introduce any subject has to give notice of it a considerable time before the meeting; you do not require that? A.—No.

Q.—Have you found the statute work in practice, have you had policyholders vote by proxy and otherwise? A.—To a very limited extent.

Q.—Your minutes I suppose will show who have been present, but it won't distinguish perhaps between policyholders pure and simple and shareholders? A.—We can give you the number of policyholders who have been represented by proxy at each of the annual meetings since that law was passed who have sent in their proxies.

Q.—I should like to have that for the information of the Commission? A.—I have it in my hand now. The proxies sent in for the year 1900, that was the first year, were 1905.

Q.—You mean policyholders' proxies? A.—Yes. That was out of a possible 6,500; there were 6,500 policyholders in that year who were entitled to vote, and 1905 were represented by proxy.

Q.—At the first meeting after the statute you had 1905 policyholders represented by proxy? A.—Yes. In 1901 293 out of a possible 7,230; 1902, 266 out of a possible 7,230; 1903, 253; 1904, 294.

Q.—Have you the total possible in both these cases? A.—No, I have the possible votes for 1900, 1901, 1902 and 1905; they would be steadily increasing.

Q.—In 1905 the number represented were what? A.—403 out of a possible 8,632. In 1906 768 out of a possible 8,800.

Q.—Those figures may have some significance, or they may not have much; that will depend upon the circumstances; can you offer us any explanation of the large vote in 1900? A.—That was the first year at which policyholders had the right to vote.

Q.—Was there anything in the air? A.—Not that I know of. The company's head office had in the meantime been removed to Toronto.

Q.—How were the proxies in 1900 distributed, in one hand or two or in numerous hands? A.—I fancy they were all made out to the President and Vice-President.

Q.—If instead of using the name of the office you gave the name of the gentleman it would suit much better? A.—Myself as President, and Mr. F. W. Gates as Vice-President. I fancy that is the way the proxies were; they may have been different, I don't know, but the majority of them would be that way.

Q.—Do you know whether there was an effort to get proxies? A.—I do not.

Q.—You do not know of any such effort? A.—It would be immediately following the legislation and the public would be specially interested at the time, and the proxies were sent out and came in in the ordinary way. I might just make this statement: notice of the annual general meeting of stockholders and policyholders was given in the first two issues in the month of February in the Canada Gazette, and in the first six consecutive issues in that month of daily newspapers published in the cities of Hamilton, Toronto and Montreal, and such notice contains the names of the retiring policyholders' directors and of any person proposed for election to the office of director by policyholders, all as required by section 4 of the Act.

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—That is of course in pursuance of the statute? A.—Yes. In addition to such notice the Secretary a few weeks before each annual meeting sent out proxies to the several branch managers or some of them that they might ask some of the policyholders in their vicinity for proxies, and the proxies received and obtained in that way, generally speaking, are sent in by branch managers, but occasionally a policyholder sends in his proxy to the Secretary.

Q.—Of course the notice sent out of the meeting in 1900 could not have contained any names of retiring Policyholders' directors, because there were not any at that time? A.—No.

Q.—That was the first meeting? A.—Yes.

Q.—I see here in one of the answers prepared for us this statement: "At the election of February, 1900, 1892, of the proxies were in favor of Hon. George A. Cox, President, and F. W. Gates, Vice-President, or one of them, and the remaining 13 proxies were in favor of 7 different persons, the largest number in favor of any one person being three." You do not remember, you say, of any special effort to get voters from among the policyholders that year? A.—I do not remember; there was no occasion for it as far as I know. Some of the branch managers may have taken more interest in it at that time.

Q.—After that the proxies were comparatively few? A.—Yes.

Q.—Have you had policyholders attend the meetings in person in any considerable number? A.—We have a fair number each year. At the annual meeting of every institution of this kind my experience is the number of shareholders that attend is very small; the same remarks apply to policyholders in a life insurance company, if everything is going all right; it is only when you pass a dividend or do something that is not pleasant you get a full attendance of representatives.

Q.—That sounds exceedingly natural? A.—Well, it is the result of experience.

Q.—I observe in 1906 you had more than you had for two or three years before? A.—Yes, we had, we were very glad to see them; we did not want the row, but still we are always very glad to see them.

Q.—That was a meeting at which there was a statement made by yourself as President upon the whole subject that was engrossing public attention? A.—In my annual address I went into the matter a little more fully, because of the agitation that was going on both in the United States and Canada. It was natural I think to do, and we sent out invitations and circulars and did what we could to get as many people as we could to attend.

Q.—Then there are some subjects which you took up in your address to the persons present that I will have to deal with more in detail subsequently, but I pass that over for the present. I have to ask you some questions in regard to your connection with some other companies; you are connected with and have been from its inception, the Imperial Life Insurance Company? A.—Yes sir.

Q.—You are one of the incorporators? A.—Yes sir.

Q.—That company was incorporated when? A.—About eight years ago, perhaps longer.

Q.—About 1898; was that at the beginning a company as to which, using the word in the same sense in which we used it Wednesday, you were in control? A.—Yes sir.

Q.—You were able by virtue of your stockholding to mould its destinies and its policy? A.—Yes sir.

Q.—Did you continue to hold the majority of the shares or to control the majority of the stock in that company throughout? A.—I did, yes sir, and I do.

Q.—You always have? A.—Yes.

Q.—You have always controlled? A.—Yes sir.

Q.—Either by holding stock in your own name or by your friends and relatives holding it? A.—Yes sir.

Q.—I would like you to tell the Commissioners with what object you formed the Imperial Life Insurance Company, why you formed a second company? A.—Well, it was purely a personal matter, purely a personal matter; it may seem not a very good reason to yourself or to this honorable Board, but it was because I wanted my son to be the Manager of the company, and I told Sir Oliver Mowat, Sir Mackenzie Bowell and other gentlemen of that kind just the purpose I had in view, and it carried their judgment, and it carried the judgment of every shareholder; there was no person who took shares in the company or became a director of the company without knowing that was my avowed purpose. I thought it was just as legitimate as if I had been practising law all my life to have him become a partner in that business or

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

any other business in which I might have spent my life. It gave employment to a fair number of representatives and officials, and it retains the money that is paid for life insurance in Canada. That company now although quite a young company has something over three million dollars invested in Canada that would possibly have been invested in the United States, taken by American companies. It was perfectly patriotic and natural in every way to establish that company, and it was done openly and above board; there was nothing wrong about it.

Q.—I am not suggesting there was anything that was not above board; at all events your object in the way in which you have spoken, was partly patriotic, and partly of course with the desire, the proper desire to occupy a profitable field? A.—Yes. My son was desirous of going into life insurance business, and if I had used my influence to put him upon the staff of the Canada Life what would the public have said?

Q.—I suppose they would have said very much what they have been saying? A.—Very likely; they would have said it with greater force. It was to give him the position which I believed was a good position, and it also gave good positions to a number of other bright, capable young men.

Q.—I want you if you will to go through the stock list of the Imperial and to point out—I will tick them as you point them out—the shares which you control, using the word in the sense which we have been speaking of? A.—Yes sir.

Q.—There is your name first? A.—Yes sir. Mr. Flavelle owned his own stock; a good portion of it he has since sold; I think he owned it at the time. I think we may exclude Mr. Flavelle.

JUDGE MacTAVISH: We cannot hear the witness? A.—The first name is my own; the shares belong to myself.

MR. SHEPLEY: The next is Mr. Flavelle's; we exclude that? A.—Yes, I should make the statement at this point, that some of these shares may belong to myself personally or to the Central Canada Loan Company, which I regard in the same light as I do myself.

Q.—I am coming to that in a little while? A.—S. C. Wood; his shares were his own. My son's shares, you may call them his own or mine.

Q.—There is an identity of interest there? A.—Yes.

Q.—That is your son F. G.? A.—Yes, he is the managing director of the company.

Q.—Then Mr. Malone? A.—These are his own shares.

Q.—He has personal relations with you? A.—Yes, he is my private solicitor.

Q.—As you say he owns the shares we will pass him over? A.—Yes, he is a director of the company.

Q.—Mr. E. R. Wood? A.—Those shares would belong partly to himself.

MR. LANGMUIR: What list are you quoting from?

MR. SHEPLEY: This is the original taking of stock in the Imperial Life Assurance Company.

Q.—You say those that stand in the name of Mr. Wood would be partly his, and you had not quite finished? A.—Partly his and partly the Central Canada's probably.

Q.—To the extent to which they are Central Canada, perhaps the whole extent, we may say those are your shares, in a sense you control them. Then Mr. Wood, may we take him? A.—As being among those who joined me in the matter.

Q.—Mr. Ames? A.—Mr. Ames owned his own shares at the time. Since he has sold them.

Q.—Mr. Eccles? A.—He owned his own shares.

Q.—Mr. Beatty? A.—He owned his own I don't doubt. I don't remember.

Q.—Mr. Gouinlock? A.—Mr. Gouinlock owned his own.

Q.—Mr. Slyvestre? A.—He owned his own.

Q.—Mr. Kenny? A.—That would be mine or the company's.

Q.—When you say the company's, you mean the Central Canada? A.—Yes.

Q.—Then Ames in trust, a small holding? A.—I think that belonged to his daughter.

Q.—Mr. Harty? A.—He owned his own.

Q.—Mr. Rolph? A.—He owned his own.

Q.—Dr. Hoskin? A.—He owned his own, I think. I don't remember about that. I am pretty sure he did.

Q.—We will query that? A.—Yes.

Q.—David Smith? A.—I don't know him at all.

Q.—H. M. Baird? A.—He owned his own.

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—Sir Oliver Mowat? A.—He owned his own.

Q.—Sir Mackenzie Bowell. A.—He owned his own.

Q.—Mr. Connell? A.—I don't know him.

Q.—Mr. Badenach? A.—I don't know him.

Q.—Mr. G. B. Smith? A.—I think he must have owned his own, I am safe in saying he did.

Q.—Mr. J. D. Edgar? A.—I have no doubt he did too. I cannot remember as to that?

Q.—Mr. Kemp? A.—He owned his own.

Q.—Mr. Davidson? A.—He owned his own.

Mr. Blackie? A.—He owned his own.

Q.—The O'Flynns, two? A.—I don't know as to that. Oh, they owned their own too, I know they would not be in trust.

Q.—J. D. Flavelle? A.—He owned his own.

Q.—And William Flavelle? A.—He owned his own.

Q.—F. W. Scott? A.—Owned his own.

Q.—Mr. Wheeler Bennett? A.—He owned his own.

Q.—Mr. Plummer? A.—How many had he.

Q.—50? A.—He owned his own.

Q.—Plummer in trust 150? A.—Very likely that would be owned by myself or the company.

Q.—Then J. W. Flavelle, another 200 in addition to the 800 we saw above? A.—I think they were his own. I think he had 1,000 shares. That is my recollection.

Q.—Then two of your other sons H. E. and E. W., we will tick those? A.—Yes.

Q.—Dr. Potts? A.—He owned his own.

Q.—Mr. Housser? A.—He owned his own, I think.

Q.—Then I will query Mr. Housser? Mr. F. C. Taylor? A.—The same remarks apply to Taylor.

Q.—I will query that then. Mr. Hall? A.—The same remark.

Q.—What is your view about that? A.—These gentlemen are directors of the Central Canada. The stock may have belonged to the Central Canada and may have belonged to them. I think it belonged to the Central Canada.

Q.—Then I will put "C.C." opposite the queries and we will know what it means. Then Mr. Davis, that I think we will tick? A.—Yes.

Q.—Then Mr. A. A. Cox, we will tick that? A.—Yes.

Q.—And Mr. Morrow? A.—Yes.

Q.—Then Mr. E. A. Badenach occurs again? A.—I don't know him.

Q.—He is a fire insurance man? A.—They would be his own. They would not be in trust anyhow.

Q.—Then Mr. Walker? A.—They were his own.

Q.—He would be in sympathy with you? A.—Oh yes, I think they all were.

Q.—W. G. Morrow? A.—What number is that?

Q.—10 shares? A.—They would be his own.

Q.—William Mackenzie? A.—They would be his own.

Q.—Dr. Warden? A.—Those would be his own.

Q.—D. Maurice? A.—They would be his own.

Q.—E. Scott, 20 shares? A.—They would be his own.

Q.—Mr. H. H. Warren? A.—They would be his own also.

Q.—You have told us that since that time you have been, in the sense in which we have been speaking, in control of the Imperial Life? A.—So far as having the majority of the stock available. I have not controlled or interfered with the management of the company in any way.

Q.—I am using the word still in the sense in which we were using it on Wednesday. Has there been a time at which there were negotiations for an alteration in that control, a transfer of that control to other hands? A.—There was a time when a portion of the stock was purchased by Mr. Ames and another gentleman, I don't know whether I should mention his name or not, an officer of the company, that would have given them a half interest in it. Mr. Ames' subsequent suspension resulted in these shares coming back to me.

Q.—I will have to ask you to go into that transaction a little more in detail, Mr. Cox, if you please. Just tell us what brought about these negotiations and just what they were and if the documents are not here please have them brought? A.—We can get them at once. You ask me what brought it about?

Q.—Yes? A.—A desire upon the part of these gentlemen to become largely interested in the company and I reluctantly conceded that.

Q.—The gentlemen's names, there is no reason that occurs to me for not

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

mentioning them? A.—It was Mr. Ames and Mr. Bradshaw.

Q.—Then what form did the negotiations take, what was the agreement? A.—The agreement was that they would purchase the one-half of the shares, if I remember rightly, one-half of my holding.

Q.—And that was put in writing? A.—Yes.

Q.—Is it here? A.—Well, we can get it, at least I assume so. Do you want it before the afternoon session?

Q.—Yes, I would like to have it while we are discussing it. I can go on while they are sending for it. You say the agreement affected just half the stock? A.—That is my recollection, one-half of the holdings in which I was interested. It specified a certain number of shares, and that so far as I remember was the one-half of my holding.

Q.—Then was that accompanied by the payment of money to you for the stock? A.—A small amount I think was paid on it.

Q.—And the agreement provided for the payment of the balance? A.—Yes.

Q.—In consequence of that agreement or of the matters of which were embraced in it, was there any alteration in the composition of the Board or of the officers? A.—Not that I am aware of. I don't think there was any.

Q.—Who was the President of the Company then? A.—Sir Oliver Mowat, I think. There has just been three Presidents. Sir Oliver Mowat was president from the time of the incorporation of the company until his death. Then Mr. Ames succeeded to that position for a short time, and then Sir Mackenzie Bowell succeeded Mr. Ames when he retired.

Q.—Mr. Ames was not President very long? A.—No.

Q.—Was his presidency the result of this arrangement? A.—No.

Q.—Between yourself and him and Bradshaw? A.—No, it was not. It was the result of Sir Oliver Mowat's death.

Q.—On the 11th of May, 1903, there was a meeting of the Board at which the first vice-president, Mr. Ames, was in the chair? Then there was a by-law passed altering the titles of the first and second vice-presidents. Do you remember about that? A.—No, sir, I do not remember about that. I am not on the board.

Q.—Then on Mr. Ames vacating the chair, Sir Mackenzie Bowell was made chairman and it was moved by him, seconded by Mr. Massey that Mr. Ames be elected president of the company and that was carried? A.—Yes, that was after Sir Oliver Mowat's death.

Q.—You say that the election of Mr. Ames was not part of the arrangement made between yourself and him and Bradshaw? A.—No, at the incorporation of the company Sir Oliver Mowat was president, Mr. Flavelle first vice-president and Mr. Ames second vice-president. I cannot remember the date, but Mr. Flavelle retired from the first vice-presidency and Mr. Ames became first vice-president before Sir Oliver Mowat's death. That is my recollection. There were no strained relations of any kind. Mr. Flavelle retired of course entirely of his own motion and because of his increasing duties in other directions and Mr. Ames who had been the second vice-president became the first vice-president and at Sir Oliver Mowat's death he became the president.

Q.—I accept that just as you have given it to me, Mr. Cox. At the same meeting I see that your son, the managing director or the manager, and Mr. Bradshaw were elected vice-presidents? A.—Yes, I think that is correct. My son had been managing director from the commencement, and Mr. Bradshaw had been the actuary and secretary from the commencement.

Q.—Then do you remember approximately the date of Mr. Ames' failure? A.—It was in, I think, June 1903.

Q.—That would be very shortly after his election to the presidency of the Imperial? A.—Yes.

Q.—Which was, as we see, in May 1903? A.—Yes. I don't think he had any notion of suspending at that time.

Q.—I suppose not. The sword of Damocles hangs over us and we never know what is going to happen. Then upon his failure what became of the negotiations between yourself and him and Bradshaw for the transfer of the half stock, the half interest in the company? A.—We re-purchased it.

Q.—From whom? A.—From both of them.

Q.—A matter which I think is of interest is, what did you pay for it? A. —I cannot remember at the moment but I can give you that information. It was at a considerable advance.

Q.—And you will let me have the figures? A.—Yes, I think it was an advance of perhaps 50 or 60 thousand

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

dollars, but I will give you the exact figures.

Q.—Then was there ever at any other time in the history of the Imperial any negotiation for your parting with your interest or any substatial part of it? A.—No, sir.

Q.—Since that your interest has been maintained intact? A.—Yes, sir.

Q.—Then in the course of the examination of the Manufacturers' Life we had some evidence with regard to a transaction between Mr. Gooderham and yourself? A.—Yes, sir.

Q.—I would like to have that from your standpoint, if you please. We have it from the standpoint of Mr. Junkin, who was on the outside and only knew what he was told? A.—In the first place Mr. Gooderham had a controlling interest in the Manufacturers' Life, and he purchased a controlling interest in the Temperance and General Life. I was a considerable shareholder, not a very large one, not a majority shareholders, but a considerable shareholder in the Temperance and General. I was also, I think, a small shareholder in the Manufacturers'. I won't be sure about that. It was very small. Mr. Sutherland was the managing director of the Temperance and General and Mr. Junkin the managing director of the Manuafcturers' at the time. When I heard that the Temperance and General had sold a controlling interest to Mr. Gooderham without advising me as a minority holder, I felt very indignant about it and wrote to Mr. Sutherland about it. The reason that he gave for that was that he had been told by a shareholder in Brantford, whose name I do not remember for the moment, that I was trying to buy his stock and that unless he, Mr. Sutherland, bought it from him that I would very likely get control of the company. Now there was absolutely no foundation whatever for that. I had no negotiations with him.

Q.—You were not at that time contemplating getting control of the Manufacturers' or the Temperance and General? A.—I was not. Now without my knowledge the control of the Temperance and General, in which I was a considerable minority shareholder, was sold to Mr. Gooderham and, as I say I felt somewhat exercised over it. I had a conversation with Mr. Gooderham's son in law—I forget his name—Mr. Blackstock. Mr. Blackstock came to me and said that he had been discussing the matter with Mr. Gooderham and that they were under the impression that I knew more about life insurance than they did and that they knew more about making whiskey than I did. I think those were the words they used.

Q.—That also sounds very natural? A.—Yes, and he said they were prepared to discuss a sale of the stock in the two companies to me. Well, sir, that was just exactly what I wanted. I thought it would be a good chance to get this company to amalgamate with the Imperial Life, that was what I had in my mind, and I purchased it within a very few hours of the time of my first discussion, the stock of the two companies, from Mr. Gooderham.

Q.—That was within a few months after the incorporation of the Imperial Life? A.—I don't think it was so close as that. I should think it would be more correct to say a few years. About three years after the establishment of the Imperial.

Q.—Then the Imperial was established a good deal longer ago than you told me in the first instance? A.—October, 1897, the Imperial was established.

Q.—That is what I supposed? A.—And this was in 1901, was it not?

Q.—The agreement between yourself and Mr. Gooderham was in December, 1898, and that is why I said a few months? A.—That is right, is it? I did not remember the time; I thought it was longer. After closing that bargain I discussed the matter with Mr. Bradshaw, the actuary of the Imperial Life and requested him to make an exhaustive examination of the other two companies, which he did, and the result of his report was that he could not recommend the Imperial Life to join these companies, for his own reasons; I have no reasons to express; he was not prepared as the actuary of the Imperial Life to approve of the coming together of the three companies and the result was not that my controlling power of voting on the stock was exercised and the thing pushed through, but his advice was accepted and at the earliest possible moment the stock of these two companies was sold, at just about what it cost me.

Q.—Then this is the agreement that is already an Exhibit in the records of the Commission? The agreement in duplicate between Mr. Gooderham and yourself. (Exhibit No. 57.) It recites that Mr. Gooderham is the

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

owner of certain shares and that you are desirous of acquiring his interests and in consideration of the premises he agrees to sell and you to buy the interest in the Manufacturers' for the sum of $140,000 for 3,105 shares, to be abated proportionately if he does not deliver them all but he is at any rate to deliver the 2,732 which he then held. Then you can pay at the same rate for any shares in excess of the 3,105. Then there is a separate provision with regard to the purchase of the Temperance and General stock, that you are to pay $152,000 for it. And the stock is to remain in the name of the vendor until all the monies payable hereunder have been paid. Then you were to pay $26,000 on the execution of the document, which you did, I suppose? A.—Yes.

Q.—And the balance you were to have four years at 4 per cent. to pay? A.—Yes.

Q.—Then it was agreed that Mr. A. E. Gooderham should go on the board of directors of "several" life insurance companies in which you were interested. Do you remember that provision? A.—No, I don't remember that proposition. It could not be so indefinite as several companies, because my sins were confined altogether to one.

Q.—Perhaps they thought you had more life insurance companies than you were letting them know of? A. —I get the credit for having a good many things that I have not got and doing a good many things that I do not do. I don't remember that provision. I think it was a provision that he would remain—however this must be right, it is signed by the two of us, but I did not remember the phrase and I do not remember now that it extended to anything beyond the fact that they would remain and they did remain in point of fact on the boards of these companies because they were still largely interested in them.

Q.—Until the agreement was carried out? A.—Yes.

Q.—They did not go on the Imperial board of course because the transaction was not carried out? A.—The transaction was not carried out, no.

Q.—And they did not go upon the Canada Life board, and perhaps it was not intended from the beginning that they should? A.—No, I don't think so.

Q.—That was not one of the several companies? A.—No.

Q.—There were no other life insurance companies that you were interested in? A.—Not to the extent of having any power or influence in the election of directors. I am interested in life insurance companies; wherever I get the chance to buy a little stock in a life insurance company, I buy it. On both sides of the Atlantic.

Q.—But you have not control, using the word in the same sense in any other companies but these two? A. —No, sir. It would possibly refer to the Imperial when the three companies would merge into one as I anticipated.

Q.—Then the last clause of the agreement refers to what you have been telling us about, "the purchaser agrees but without making it a condition of this agremeent or rendering himself liable for a breach of the same, that upon the amalgamation or consolidation with any other company or companies," that was the Imperial you referred to? A.—Yes.

Q.—"He will permit the vendor to acquire from the purchaser," that is you, " a substantial interest at or near the average cost to the purchaser of his interest in the said two companies?" A.—Yes.

Q.—You did not bind yourself to that but you bound your honour to give him a substantial interest in the consolidated company at cost? A.—If it went on, yes.

Q.—Then you say Mr. Bradshaw made an exhaustive examination into the affairs of the two companies which you were proposing to buy? A.—Yes, which I had bought.

Q.—And the result of his examination was that he dissuaded you from carrying out the purchase? A.—No, not the purchase, because it had already been made. He disssuaded me from the amalgamation and in consequence of that I sold.

Q.—To whom did you sell? A.—It was first sold to MacCuaig and some person in Montreal.

Q.—MacCuaig & Strachan were the names we heard from Mr. Junkin? A.—Yes. Then at a later date they were sold to some other parties. Mr. Junkin negotiated the matter.

Q.—In the result Mr. Junkin told us that he was assured that neither you nor any person between you and him had made any profit upon the turn-over of the shares? A.—I think that is substantially correct.

Q.—You corroborate that? A.—Yes.

Q.—You did not sell at a profit? A.—No, I did not.

Q.—You saved yourself and that was all? A.—Yes, it might be a few dollars either way but it was substantially the same.

Q.—Mr. Watt tells me there was a profit of $658? A.—Yes. Well, I am not speaking to the dollar, I say substantially the same.

Q.—I take Mr. Watt's statement and incorporate it with the record, that your profit on the turn-over was $658. Then I may tell you that I do not think you are bound to answer my next question unless you choose. Are you still looking towards the acquisition of a company for the purpose of consolidating it with any other company that you are interested in? A.—I am not, sir.

Q.—The Imperial is now standing upon its own merits? A.—Standing upon its own basis and doing real well. It has a good start and will take care of itself.

Q.—We will see how well it is doing when we get as far as that? A.—All right, sir, I will put in that word in the meantime.

Q.—Then you have certain other companies in which you are largely interested and I have now to ask you about those. Let me take first the National Trust Company? A.—My individual holding in that is very small. The Central Canada Loan and Savings Company—

Q.—Which you look upon as yourself— A.—Yes, which I look upon as myself, I take that responsibility; they own about 25 per cent. of the stock, and the Canada Life Assurance Company owns about the same amount, 25 to 28, somewhere along there.

Q.—And you have told us what your position is in the Canada Life? A.—Yes.

Q.—Practically, Mr. Cox, so long as you do not war among your own members, you are in control of the National Trust Company, using the word not in any invidious sense? A.—It has not occurred to me in that way at all. The National Trust Company is an institution in which I have no more control or take no more part than any other of the directors of the company. But if I wanted to control the voting power of the Canada Life and the Central Canada and to turn out the directors, possibly I might do it, but I do not think I could do it, I do not think the directors of either of these companies would allow me to do that. I don't think they would.

Q.—If you used all the voting power which is at your command you could do it whether they liked it or not, but that is the same question we did not agree about on Wednesday? A.—Just so.

Q.—And I will not pursue that, I know your view that public opinion will prevent a man from acting in his own interest? A.—Yes I feel that very strongly. Acting improperly. I feel that very strongly and I think everybody will agree with me in that. Take Mr. Hyde of the Equitable Life, what became of him? He couldn't even live in the city he had to leave the country because he did not properly handle the Equitable Life and he held a controlling interest in that. Isn't that a good illustration? Actually had to leave the country.

Q.—That is an apt illustration as to what the force of public opinion may do with respect to the conscience of a man.

MR. NESBITT: Add to that, that his own board that he was supposed to control, absolutely declined to do what he wanted them to do? A.—His own board turned him out and he had to leave the country.

MR. SHEPLEY: I do not want to press the subject too far. When you say if a man undertakes to do what is improper, there may be different opinions about what is proper and what is improper? A.—Yes, that is true.

Q.—Then I shall not at present go into the dealings of the Canada Life with the National Trust, because that forms a separate piece of history. I ask you next about the Central Canada Loan and Savings Company. That, you say you look upon as yourself? A.—Yes, sir.

Q.—What is the Central Canada Loan and Savings Company, what is its object and purposes? A.—I do not know that I can give you further information than the annual reports of the company from time to time.

Q.—Is it a company incorporated for the purpose of loaning upon mortgages upon real estate? A.—Yes. and for the purpose of buying and selling securities, issuing debentures, receiving deposits. Issuing their own debentures, buying and selling securities and loaning real estate. A company established in 1884, if I remember rightly. It has a paid up capital of $1.500.000 and a reserve fund of $1.000.000.

Q.—There has been a great deal of

legislation about it, I think? A.—There has been one amendment to its charter.

Q.—I find more than one. This is the power contained in the original letters patent. To acquire and hold either in fee simple or for a term of years any lands, tenements or hereditaments and to lease or sell the same upon such terms and conditions as may be agreed upon? A.—That has been eliminated by subsequent legislation.

Q.—To lend money on the security of mortgage of real estate, whether freehold or leasehold, to purchase or lend on Government and municipal bonds or debentures, the stocks and debentures of chartered banks or companies incorporated under any special or general Act of the Dominion of Canada or of any of the former provinces of which the same is composed, or of the Province of Ontario, at such rate or rates of interest as may be agreed upon, to receive money on deposit, pay such rate of interest as may be agreed upon and to borrow on the debentures of the company, under the name of the Central Canada Loan and Savings Company of Ontario. Those are the powers of the Company with the elimination of the power to acquire and hold real estate? A.—Yes.

Q.—Has that, speaking generally, been the business which the company has carried on since its incorporation, the business of purchasing and marketing securities? A.—Yes, and in the early years of the company their business was confined almost exclusively to mortgage loans, but for many years the business has been more particularly in the purchase and sale of securities.

Q.—Does it do a large deposit business? A.—It does a substantial deposit business, yes, and has from its inception.

Q.—I think you told me on Wednesday that that company originally carried on its operations in Peterborough? A.—Yes.

Q.—The head office was subsequently moved on to Toronto? A.—Yes.

Q.—And its operations have grown from year to year until they are now very large? A.—Yes. They still have an office in Peterborough.

Q.—Have you any other branches? A.—No. That is for the purpose of loaning on mortgage. Our mortgage loans are largely there.

Q.—Then this is handed to me as your last report. (The letters patent of the Central Canada and the 22nd Annual Report are filed as Exhibit No. 181.) On the first page you have your offices, Toronto and Peterborough; your bankers in Canada and the United States are the Canadian Bank of Commerce; in Great Britain, the Bank of Scotland. You have agents in Glasgow and in Edinburgh? A.—Yes, sir.

Q.—What is the nature of the agencies there, what is the business they do? A.—The sale of the company's debentures.

Q.—Then we have the board, consisting of yourself, president, your son F. G. Cox, and Mr. E. R. Wood as vice-president? A.—Yes.

Q.—Sir Thomas Taylor, your son E. W. Cox, Richard Hall, J. J. Kenny, F. C. Taylor, your son H. C. Cox, William Mackenzie, Robert Jaffray, J. H. Housser, Chester D. Massey, Rev. John Potts and J. D. Morrow form the board, and the other officers are Mr. Wood, managing director, Mr. Morrow, assistant manager and Mr. Hodgins, secretary? A.—Yes, sir.

Q.—Then you have here a statement of assets and liabilities, the assets amounting to $7,886,950.42, and the liabilities, including capital, are how much? A.—Well, the capital is $1,500,000. Reserve fund $1,000,000. The amount to credit of profit and loss 25 or 30 thousand dollars, and the balance is liabilities to the public. You have it all there.

Q.—Your deposits are $1,151,333.13. Your debentures $1,883,426.89. Your sterling debentures, in dollars $2,281,311.68? A.—Yes, sir.

Q.—I am not going into it in detail at present but I just want to indicate this, the Central Canada have dealings by way of selling securities to the Canada Life? A.—Yes, they and the Dominion Security Corporation which is owned exclusively by the Central Canada.

Q.—That is another company I was about to ask you about. The Canada Life is a customer in the purchase of securities of the Central Canada? A.—Yes, sir.

Q.—In the matters which we are investigating, a great body of the securities which the Canada Life holds, has been purchased from the Central Canada. Mr. Watt says and I am quite willing to have that statement made, that since the incorporation of the Dominion Securities Company the Central Canada controls it and makes its marketing of debentures through the Dominion Securities Company? A.—Any way you like to put that; as Mr. Watt says, these transactions are the

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

transactions of the Dominion Securities Corporation. That is their exclusive business, and they are exclusively owned by the Central Canada. They have a large staff of employees all over the country buying and selling securities and have very large transactions. I have not felt—right or wrong—that there was any reason why the Canada Life should not purchase their securities from the Dominion Securities Corporation because I was interested, or any reason why they should not do their banking business with the Bank of Commerce because I am president and shareholder in that institution. These are points that have been the subject of discussion and criticism in the press. I have had no hesitation in saying to the public and everybody with whom we come in contact in this question that we are dealing with these institutions and all that we ask is that the transactions between them get a fair and searching investigation. If there is anything wrong in them we will take the responsibility of that.

Q.—We will try to make it fair any way, Mr. Cox. I shall have to ask you much more in detail in regard to this later on. At present I am just outlining the relationship of yourself to these various companies. When was the Dominion Securities Company formed? It seems to have been in 1901? A.—I suppose that would be correct, yes.

Q.—The date of the letters patent is the 18th of March, 1901. The incorporators are Mr. Pellatt, Mr. George Edwards, Mr. Robert Armstrong, Mr. A. L. Malone and Mr. Albert Mearns? A.—I was not aware who the incorporators were. The directors are the same as the Central Canada.

Q.—The board is the same as that of the Central Canada, and as you have stated the company itself is exclusively owned by the Central Canada? A.—Yes, sir.

Q.—Now the purposes are, "A. To purchase, sell or invest in debentures, bonds, stocks and other securities of any Government or of any municipal corporation or school corporation or of any chartered bank or of any incorporated company."

"B. To borrow money upon the mortgages or pledge of any property, real or personal, of the company but without the power to issue debentures or receive deposits.

C. To conduct a general brokerage business and to do all such things as are incidental and conducive to the attaining of the above objects or any of them. Provided such objects shall not be deemed to include power to carry on the business of a loan corporation within the meaning of the Loan Corporations Act."

These are your corporate powers? A.—Yes, sir.

Q.—Then does the Dominion Securities Company do an extensive business in securities? A.—They do a larger business than any other bond house in Canada, so far as I know. I think their transactions run into many millions a year. I should say 18 or 20 millions of dollars last year. They have a staff of men travelling on the road between the Atlantic and Pacific, buying and selling securities, and I think I am safe in saying they are the largest bond dealers in Canada.

Q.—Mr. Watt has asked me to put in a list of the shareholders of the Central Canada for the purpose of showing that there are a great many shareholders. Of course, as you have already indicated, your holdings are very large? A.—My holdings are a fraction over 50 per cent. 50 or 54 per cent., perhaps 55.

Q.—I have no objection to put that in as part of the Central Canada Exhibit. (Filed as part of Exhibit 181.) Then, I gather from the returns or answers which have been given to us, that since the incorporation of the Dominion Securities Company, most of the investments of the Canada Life in respect of the class of securities that they deal in have been with them? A.—I think, Mr. Shepley, that it would be fair to take that up with the Treasurer of the Canada Life and the Chairman of the Investment Committee. You will get the information from them in greater detail and with greater accuracy.

Q.—I was not going into it at present in detail at all but just to make the link there for the present. I am going into that in detail hereafter? A.—I could not give you the percentage of purchasers from the Dominion but we have them in detail.

Q.—You have at all events purchased very largely from them? A.—We have purchased largely, I fancy it would be correct but it would be better I think to have the exact percentage of the purchases from them and from other institutions.

Q.—I shall make that detail afterwards but it would take me out of the path I am trying to travel to do

33rd day, June 1st, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

it at the moment. I just want the point that the Canada Life has dealt largely with the Dominion Securities Company? A.—Yes, sir.

Q.—Then, when vendors of securities come to the Canada Life with securities for sale, do the officers of the Canada Life, to your knowledge, send them to the Dominion Securities Company? A.—No, sir.

Q.—With a view of having the sale made to the Dominion Securities Company first? A.—Not to my knowledge, but that is a question that you would get answered I think more correctly from the Treasurer of the Company. So far as I know I have never known such a thing to happen at all.

Q.—You are not aware of it? A. —No, sir, I am not, and every security purchased by the Canada Life comes before the investment committee of which Mr. Alexander Bruce is chairman and Mr. Watt the treasurer.

Q.—If that does take place you are not aware of it? A.—I am not and I would be very much surprised to hear it.

Q.—Mr. Watt hands me a statement; it was not my purpose to go into it with such detail, but Mr. Watt seems to make a point of it and I have no objection to stating it. In respect of these securities, the investments which are now held by the Canada Life, purchased since the 1st January, 1900, 11.62 per cent. have been purchased from the Central Canada; 31.55 per cent. from the Dominion Securities Corporation; 38.36 per cent. purchased directly from the vendors, and 18.47 per cent. from other persons than those named. That of course, is subject to verification. Then, have you also an interest in the Provident Loan and Savings Company? A.—Provident Investment Company, yes, sir, I have the exclusive interest.

Q.—And where is that company carrying on its operations? A.—Its operations have been pretty nearly wound up. The chief assets of that are mostly in small parcels of real estate and mining stocks and things of that kind.

Q.—Is it a sort of waste paper basket? A.—It is in a sense, and it is not. It is perfectly good for any obligation it undertakes, but it is a company that is doing very little business now and the capital is being reduced from 800 to 100 thousand dollars with a view of liquidation.

Q.—And I think the Canada Life holds some of these securities? A. —No sir, it does not. Nobody does. It does not issue any securities at all of any kind. It has no power to receive deposits, issue debentures, or incur any liability excepting that of a broker in borrowing on the securities which it pledges.

Q.—Then is there another loan company operating in Toronto in which you are interested, the Toronto Loan and Savings Co.? A.—The Toronto Savings and Loan Company. No, sir, it is not operating in Toronto but it is operating in Peterborough. It is a company organized in 1885. That company is largely interested in Peterborough real estate property. It owns the property that I owned in Peterborough and handles all my business in Peterborough, all my chief investments there.

Q.—And that is also your property? A.—Yes.

Q.—That company does undertake obligations, I think? A.—Yes.

Q.—And the Canada Life is a holder of its stock or bonds? A.—It is not a holder of its stock.

Q.—Of its bonds? A.—Yes, to the extent of, if I remember rightly, $60,-000.

$60,000 is what I have observed? A.—Yes. That is a company with a capital of one million, a reserve fund of $650,000. The annual statement of the company is there.

Q.—This is the annual statement for 1905. It shows assets of $2,545,903, and the profit and loss account over dividend of $22,531.78. I put that in and I will put in the by-laws with that (Exhibit 183). Then, have you any considerable interest in the Hamilton Provident, a company doing business in Hamilton? A.—None whatever, sir, never had.

Q.—The Canada Life has invested very considerably in the enterprise of the Dominion Coal Company? A.—They are holders of stock in the Dominion Coal Company, yes, sir.

Q.—Then the Dominion Coal Company has certain other enterprises, has it not, the Iron and Steel Company, for instance? A.—The Dominion Coal Company has no interest in the Dominion Iron and Steel Company, now.

Q.—Not now? A.—No, sir.

Q.—But they were at one time closely associated and I was going into that a little more in detail further on? A.—At one time the Coal Company was leased to the Steel Company, but that connection has been separated entirely

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—And the Canada Life holds some of the securities of the Dominion Iron and Steel Company? A.—Yes, they do.

Q.—$100,000 Mr. Watt tells me? A.—That is the bonds, it is not the stock. First mortgage bonds.

Q.—Then had the Dominion Rolling Stock at one time some connection with the Dominion Coal Company also? A.—The Dominion Coal Company has a Rolling Stock Company and I think it is called the Dominion Rolling Stock Company.

Q.—And the Canada Life has securities of that also? A.—They have. I do not know to what amount. I know we had them. They run out on monthly payments. Have we any of them now, Mr. Watt?

Q.—I have not before me the figures for the later years? A.—They run out in monthly instalments that is why I asked the question.

Q.—About $275,000, Mr. Watt says or thereabouts. Then do you know the Cape Breton Real Estate Company? A.—Yes, sir, that is another company of the Dominion Coal Company.

Q.—You have a very considerable investment there? A.—Yes, sir.

Q.—About as much as you have in the Rolling Stock Company? A.—Yes, sir.

Q.—Then you were interested also in the Canadian General Electric Company? A.—As a shareholder.

Q.—Have you a controlling interest there? A.—No, sir, I wish I had.

Q.—If you really wish you had I think it is very likely you will have some day. From what you have just said I would take those to be very good securities in the hands of the Canada Life? A.—I am not aware that the Canada Life owns any of the securities of the Canadian General Electric.

Q.—It did in 1893.

MR. WATT: That was the bonds of the London Company that was owned by the Canadian General Electric? A. They have been paid off, the London Electric Company. That is the Electric Railway of the City of London.

Q.—That Mr. Watt tells me was owned by the Canadian General Electric? A.—Yes.

Q.—Then you are connected also with the Electrical Development Company? A.—I am, yes.

Q.—Very largely interested there? A.—No, sir, not very largely.

Q.—It would seem large perhaps to me, but you do not think it is very large. What is your interest there? A.—In point of fact I don't think I have any holding at all in the Electrical Development Company at the moment. I originally took 100,000 dollars of the underwriting. One hundred thousand dollars of stock and one hundred thousand dollars of bonds. That has been sold. I think I am correct in saying that. I do not keep these details very fully in my mind but I think I am correct in saying that that has been largely if not altogether sold.

Q.—Another enterprise I want to ask you about is the Sao Paulo Company. You know something about that? A.—Yes.

Q.—That is a company incorporated where? A.—In Canada.

Q.—And carrying on its operations in Brazil? A.—Yes, in St. Paul. Sao Paulo.

Q.—Are you a large shareholder in that? A.—No, sir, I am not, unfortunately. Sold too early.

Q.—You were at one time? A.—I was at one time. Not very large, but I was one of the original shareholders and I am yet a small shareholder and a director.

Q.—But your holding has been reduced? A.—Yes.

Q.—What do you hold now? A.—I should say perhaps 100 shares or something like that. Not much, if any, more than would qualify me as a director. I may have a couple of hundred shares. I really do not remember, but a small holding.

Q.—Then have you or had you any interest in what is usually spoken of by the short name of Twin City? A.—I don't remember having been an individual holder of Twin City. I may have had some but I have none now.

Q.—Have any of your companies, which you exclusively own, interests there? A.—Don't say "exclusively own." Say "in which I am largely interested." Unfortunately I don't exclusively own them. I don't know that any of the companies have any now. They have owned it from time to time, but I don't think that any of them own any Twin City now. I make that statement subject to correction, because I may be wrong. The Canada Life does not own any Twin City now.

Q.—The Canada Life invested in those securities, including Twin City? A.—They did at one time and sold out at a profit. I wish they owned a lot of them. They are good securities.

33rd day, June 1st, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—I have now to ask you somewhat more in detail about the dealings in Dominion Coal. In 1902 the lease of which you have spoken was made? A.—I cannot remember the date. It would be about that I suppose.

Q.—That lease is set out in the annual financial review published in July, 1902, commencing at page 140. It is from the Dominion Coal Company to the Dominion Iron and Steel Company. That is the lease of which you were speaking some little time ago? A.—Yes sir.

Q.—That is given under the title in the book, "Dominion Iron and Steel Company." At that time, when this book was issued, Mr. Ross was the President and you were one of the Vice-Presidents of the Dominion Iron and Steel Company? A.—Yes. I do not hold that position now.

Q.—Speaking generally this was a lease of all the property of the Dominion Coal Company to the Dominion Iron and Steel Company at a fixed rental of $1,600,000. Do you remember that? A.—I do not remember it. I have no doubt that is correct. I do not carry these figures because I have never been actively engaged in or largely interested in either of these companies. It was a long distance. I felt a great interest in the welfare of the companies because they are very important enterprises.

Q.—Perhaps it will come back to you in another shape. It was leased so that it could pay out of the rental 8 per cent. on its common stock? A.—Yes, that is the reason I do not remember the amount. That is what I had fixed in my mind, 8 per cent. So that the Coal Company would get what would enable them to pay their shareholders 8 per cent; that is the way it was put.

Q.—We will take that upon the record as it is shown here. I have no doubt this is correct but you will tell me if it seems wrong to you at all. The bond debt of the Dominion Coal Company was how much? A.—I don't remember. That will all be in their annual report.

Q.—$2,704,500 is what is shown in this book. Does that seem to you about right? A.—I have no doubt it will be right, what is there.

Q.—And the preferred stock three millions, and the common stock 15 millions? A.—Yes.

Q.—The bonds bore interest at the rate of 6 per cent? A.—I think these bonds did. They have since been redeemed.

Q.—And the rental which was to be provided for by this lease would enable the interest to be paid upon the bonds, and interest at 8 per cent. upon both the preferred and common stock? A.—I think that was it.

Q.—That was the idea of the lease? A.—Yes.

Q.—Before this lease was in contemplation, what was your holding in the Dominion Coal Company? A.—My own personal holding?

Q.—Yes? A.—I don't remember. It would not be much.

Q.—Do you know how the stock had been upon the market during 1902? A.—No, I don't remember that, but I know that in the first years of the company there was no dividend paid on the common stock and it was at a low rate on the market.

Q.—In 1901 the highest seems to have been 51½ and the lowest quotation of stock 33? A.—I have no recollection of that at all. I had very little interest in the Dominion Coal Company; perhaps attended one or two meetings in the year of the Directors. It is not an enterprise in which I am largely interested by any means although I view it as one of the most important.

Q.—Were some of your companies interested? A.—No, not that I am aware of, beyond the investment in the securities of the company. I mean they were not interested in the active management of the company in any way.

Q.—I want to call your attention to these fluctuations and then we will inquire into the transactions? A.—I cannot verify the quotations because I have not the information beside me, but I have no doubt they are correct.

Q.—We will take it not as coming from you but as being read from the Annual Financial Review published in July, 1903. In 1902, I will be a little more in detail there, because that is perhaps of more importance. In January the highest quotation was 65 and the lowest 54, and the sales were 34,567. In February the highest was 88 3/4 and the lowest 64, and the sales were $46,949? A.—Are you making this a part of my evidence?

Q.—No, I have taken pains that the reporter shall take it down as being read from this, and not as part of your evidence? A.—I am not able to say whether it is correct or not. I do not know anything about it.

Q.—Quite so, Mr. Cox; I am trying to take care that you shall not be misrepresented in the notes. In March the highest was 123 1/4 and the lowest

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

88, and the sales 32,093. In April the highest 148, the lowest 122½, and the sales 25,706., Then in May the highest was 141, the lowest 133$, and the sales had fallen to 8,180. In June the highest was 141½, the lowest 135¼ and the sales 1,785.

July, highest 137½, lowest 132 3/4, sales 2,051.

August, highest 144, lowest 136¼, sales 3,070.

September, highest 147, lowest 126½, sales 6,330.

October, 135 and 120. Sales 8,698.

November, 131 and 125. Sales 3,782.

December, 132¼ and 125. Sales 4,988.

January, 1903, 132½ and 130. Sales 1,923.

February, 130 and 128. Sales 1,360.

March, 127 3/4 and 107. Sales 13,014.

April, 112 and 104, sales 8,020.

May, 110 3/4 and 87. Sales 6,072.

June, 99¼ and 73¼. Sales 18,527.

Now I am not at all saying that you have said so, but assuming that these figures are correct, there are two or three things that it seems to me they would indicate, and I want to see whether you would agree to that. During 1901, when you say no dividends were being paid, Dominion Coal was ranging very low in price? A.—Very few transactions in it I should fancy. I do not know.

Q.—They have not a column for that in 1901. In the early part of 1902 the price commences to go up, and the sales were numerous, and it seemed to me—I ask you whether you would agree to that—an indication that the shares were being purchased with the knowledge that the lease was about to be made? A.—That is quite possible. It was a subject of public discussion for a good while before it was made. The negotiations between the two companies arising out of an agreement that had been made some years previously for the supply of coal to the Steel Company by the Coal Company, and at that time Mr. Whitney, of Boston, Mr. Ross, of Montreal, Mr. Angus, Sir William VanHorne and others were the controlling spirits in these two corporations and it was a matter of considerable discussion at the time, and the increasing importance of the coal property, the construction of their railway, the purchase of their steamers, and the extensive developments that were being made upon their property all indicated that the property was becoming—very large earnings were being made and put into these improvements and all that indicated that the property was as it is to-day one of the most important properties in Canada.

Q.—Are you able to say what it was that was supposed to enable the Dominion Iron and Steel Company to take over this property and pay this rental? A.—The chief object of doing it was for the supply of coal. A difficulty arose between the two companies as to the supply of coal, and the Steel Company felt it important, I presume—that was the argument used at the time—as I said I was not very much interested there except in the interest that a public man in Canada would have in enterprises of such magnitude and importance. That was my chief interest. And any person who knows the steel industry will know that coal is the most important element in it.

Q.—The coal is the twin? A.—Yes, and it was very necessary for them to have such arrangements as would ensure a large and constant supply of coal and it was out of that fact that the negotiations for the bringing of the two companies together arose. As I say, the moving spirits in the two concerns at the time were Mr. Whitney of Boston and Mr. Ross of Montreal. There were other large holders of the securities of these companies. Mr. Vanhorne, Mr. Angus, Mr. Clouston and other large Montreal capitalists. These concerns were largely owned and controlled in the cities of Montreal and Boston.

Q.—Then among those who seem to have purchased shares largely about the time this lease was to be brought about, was the Dominion Securities Company. You were aware of that, I suppose? A.—I think they did, Yes. To what extent I am not able to say.

Q.—Do you remember, without me bringing the documents to your notice, how that was financed? A.—The whole transaction?

Q.—Yes? A.—They were buying and selling all the time. I cannot give you those particulars without giving me a little time. I had no idea I was going to be questioned about the Dominion Steel and Coal and the St. Paul Company and all these. Otherwise I would have prepared myself. I came prepared to answer questions so far as I could, about the Canada Life, which is un-

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

der examination. It is a pretty wide field to take a man over half a dozen companies.

Q.—I am fiinding it a very wide field to travel myself? A.—I do not wish to hesitate in giving answers to questions that you would naturally suppose I should answer at once, but on a moment's reflection you will see that the transactions of these companies, running into hundreds of millions, and extending over the whole Dominion, are questions that one cannot answer offhand. It may look as though I were trying to evade a question, and I do not want that impression to go abroad.

Q.—I do not desire to suggest such a thing for a moment. I would be very glad if the board will permit the adjournment to take place now so that Mr. Cox may familiarize himself with the transactions? A.—Will you tell me what the particular thing is that you want to know. You want to know perhaps if the Canada Life Insurance Company made any loss on Dominion Coal stock?

Q.—Yes? A.—I think Mr. Watt could give you that right here and now, if you will allow him to do it. That is why I suggested a little while ago that if you want the absolute particulars in every transaction in the Canada Life, you will get it through the Investment Committee, and I will be here to be criticised and cross-questioned with reference to it.

Q.—I shall not want to go into every transaction, but I shall into several typical transactions. If the board will adjourn now? A.—Will you not take this information from Mr. Watt now? Every transaction of the Canada Life you can hold me personally responsible for.

Q.—You will have Mr. Watt's assistance. At one time, Mr. Cox, we had three gentlemen in the witness box at once.

(At 12.45 adjourned to 2 o'clock.)

AFTERNOON SESSION.

Resumed at 2. p.m., June 1st, 1906.

Examination of Hon. George A. Cox continued:

MR. SHEPLEY: I do not know whether you have had time to get the information or whether you can get it from somebody here? A.—I have got the information as between the Dominion Securities Corporation and the Canada Life Assurance Company with regard to Dominion Coal; I find there was a loan made in February 1902 by the Canada Life to the Dominion Securities Corporation upon ten thousand shares of coal stock at 50 cents on the dollar; that loan was paid off in April of the same year, about 60 days after. The money was borrowed from the Bank of Scotland to pay it off.

Q.—Have you ascertained who was the real purchaser of the stock? A.—The Dominion Securities Corporation I presume it was, no doubt.

Q.—The Dominion Securities Company no doubt pledged the stock to the Canada Life and the Canada Life advanced the $500,000 to the Dominion Securities Company, but as a matter of fact was not the transaction a transaction of the Central Canada? A.—The Central Canada and the Dominion Securities Corporation are one and the same so far as the ownership of that stock is concerned.

Q.—They are separate corporations? A.—Yes, but as I explained to you this morning the stock of the Dominion Securities Company is owned by the Central Canada, so that you can call the loan either to the Central Canada or the Dominion Securities Corporation.

Q.—The loan was at all events in form and no doubt in substance, in a sense, a loan to the Dominion Securities Company, but upon the state of affairs that existed between these two companies, that was in fact a loan to the Central Canada? A.—It would have the same effect, and it would have the additional security of the capital and resources of the Central Canada. The loan was at 50 cents on the dollar, and it carries with it the option to the Canada Life of taking 1,000 of the shares at 70 cents on the dollar; that was about the market price of the stock at the time.

Q.—That was an option? A.—Which was afterwards exercised.

Q.—The Canada Life got 1,000 shares? A.—At 70 cents on the dollar, yes.

Q.—Referring to those prices again, February 1902 the highest price appears to have been 88¾ and the lowest price 64, and 70 you say was about the market? A.—What we would call about the average market price, but the Canada Life did not buy at that time, they only had the option. (A clerk speaks to Mr. Cox.) That just confirms the idea that the average price of the stock was 70.

Q.—Was there a considerable purchasing of Dominion Coal at that

time by individuals connected with any of these companies? A.—I am not sure as to that, I think there was; I think there was a very active market at that time; I think that there were large transactions, but the information that you have there would be the total sales I presume of the stock in all the markets, and there was a very active market both in Boston and in Montreal and in Toronto.

Q.—What I referred to this morning were the Montreal sales; there is a record also in the book of the Toronto sales, and the markets are about the same, and you have in the same way—I think we had better put it upon the record—you have in the same way large sales in Toronto in the months of January, February, March and April of 1902, just as you had in the Montreal Market to which I was referring this morning? A.—Yes. The Boston market was the most active of any. The larger transactions, Mr. Whitney and other very large holders—the directors of these companies were very wealthy Americans and owned large blocks of the stock.

Q.—There would be more activity in the Boston market than in the other two markets? A.—Yes, and I should think Boston first, Montreal second and Toronto third, I should think it would be in that order.

Q.—Toronto 32,630; in February; in March 46,949? A.—And you have not Boston there. It would be as large I should think as both the others.

Q.—I think you said this morning that no doubt this activity in the early part of the year was due to the prospect of the stock being a dividend paying stock by virtue of the lease which was in contemplation? A.—By virtue of the lease and by virtue of the largely increased output and largely improved position of the company. It is one of the finest properties on this continent.

Q.—Were you perhaps a little too modest about your own share in bringing about the lease; were not you very active in that? A.—I was certainly, believed it to be a good thing and I believed it was a mistake. It was afterwards cancelled, and every one feels that way now; it was a great mistake; these two properties ought to be together.

Q.—You were taking an active interest in what was going on and promoting the consummation of this lease? A.—I was to a certain extent,, but I was an ordinary director of the company, and a number of other very large holders, of influential men of both sides—I do not wish to convey the impression that I was dealing with that with anything like a controlling interest, because I had not anything of the kind whatever.

Q.—I rather gathered the impression this morning from what you said that you were not taking much interest in it, I want you to modify that if you will? A.—I will modify that to that extent, to a certain extent, because I always take an interest in anything I am in, but what I mean is that Mr. Whitney and Mr. Ross and Sir William Van Horn and Mr. Angus and other names whom I might mention were very much older directors, very much larger holders, and very much more active in the negotiations then going on, but I took a part in it, and I took just the same as any other person would who was a director of the company and who was anxious to see what I believed a first-rate arrangement brought about.

Q.—Can you tell me who of the gentlemen connected with the companies with which you are identified were purchasing Dominion Coal also at that time? A.—I could not tell you that.

Q.—Were you yourself? A.—I was, I purchased some myself.

Q.—Largely? A.—Not very largely, no sir, I have not purchased largely except in just these institutions which you give me the credit of controlling; my capital is pretty well concentrated just in these institutions in which I have spent my life working.

Q.—To what extent did you increase your holdings at that time in Dominion Coal? A.—Possibly I would have from one thousand to two thousand shares, that would be the outside limit; I do not think I have that much, but that would be the outside limit. The chances are I would have perhaps a thousand shares myself.

Q.—Who were the other gentlemen who were purchasing also connected with the companies— A.—With our company?

Q.—Yes? A.—None that I know.

Q.—The Canada Life? A.—No person connected with the Canada Life so far as I know; I am not aware of any; there may have been 50 shares or 100 shares particular transactions of that kind, but I think there was not any large holders at all.

Q.—Was there anything like this,

was there anything like a pooling among the staff? A.—Not to my knowledge.

Q.—May it have happened without your knowledge? A.—I do not think so, I am pretty sure it would not, and I am perfectly sure there was no such thing; certainly not to my knowledge. It might have as I say, occurred that any of the staff might have 50 shares or 100 shares, or something like that, I would not say they had or had not.

Q.—In connection with the Central Canada what gentlemen were investing? A.—I do not know that, possibly Mr. Wood may have been. Mr. Wood is a man with a large amount of money, he goes into pretty good transactions that I know nothing of whatever; I do not know what his balance sheet is any more than I know what yours is, but I know he is a wealthy man.

Q.—You were taking a good deal of interest in the affairs of the Dominion Coal Company at that time? A.—I was in the amalgamation, but I was not taking any particular interest in who bought and sold the stock. The stock is an active stock even to-day.

Q.—Would you go so far as to say you were not actively recommending the stock to your friends, those associated with you in a business way? A.—I would say that without the slightest hesitation; I never recommend stock to anybody, good, bad or indifferent; I refused persistently to give any advice or recommendation to anybody about buying stock.

Q.—Did any transactions to your knowledge like this take place, a person wanting to buy, and not being able to put up the necessary margins, and getting an insurance policy placed upon his life with the Canada Life, and a loan made upon that in connection with Dominion Coal? A.—I might do that; I do a good deal to get a Canada Life policy.

Q.—A Canada Life policy immediately after its issue has not any loan value? A.—Yes, it has an attraction to me, I have been looking for them all my life.

Q.—Is it so attractive that after payment of one premium it would be good security for a large loan? A.—The policy itself?

Q.—The amount of the policy? A.—No, it would not, but it might be collateral to a security to a loan if the other security was good. Now that you mention it, I think I remember one case, and only one so far as my memory goes, where a loan was made, I think of about $1,000 or $1,500, it may be two or three thousand dollars. I have in my mind a person, I do not suppose it is necessary or desirable to mention his name, but it was I think a two thousand dollar loan or somewheres about that, less I think, that is to the Canada Life I am speaking of, you understand—

Q.—I asked you about the $500,000 handed over to the Dominion Securities Company upon the security of the ten thousand shares of Dominion Coal; have you looked to see how that money was obtained at the time? A.—I have not, but the treasurer I am sure, will be able to give you that. I have not attempted to get all these particulars because I thought you would get them from the officers of the Canada Life.

Q.—This is the appropriate time to have it if I may read it, and if Mr. Watt assents to it it may go upon the record? A.—Yes sir.

Q.—Apparently there was a credit on the 31st January in the Bank of Commerce, that is approximately about the date when this commenced, of $10,000; it was a little more than $10,000 but I will leave the odd dollars off; and a credit of about $500 in the Nova Scotia Bank, at the end of February, during which month $500,000 had been advanced, those credits were turned into debits, $75,000 in the Bank of Commerce, and $198,000 odd Nova Scotia; making in all $284,850? A.—Well.

MR. WATT: I cannot assent to that till I know whether that is the combined account.

MR. SHEPLEY: That is the account of the Investment Department.

MR. WATT: Then there might be a balance in Insurance Department.

MR. SHEPLEY: I am going to that; during the same time the Insurance Department handed over to Investment Department $181,000, and in doing so created an over-draft to the extent of the difference between that sum and $46,000. which was at their credit; that is the information that has been collected from the books. That, Mr. Cox, is a subject about which perhaps it is not necessary we should do more than get what the facts are, and your opinion as an insurance man about it; that indicates of course, apart from the question as to whether a call loan is an investment proper, that the Canada Life was pledging its credit for the purpose of lending money? A.—We do that fre-

quently to take up a transaction we think desirable to have.

Q.—What you did say to me in the interim was when you see an investment which is desirable to make you do not refrain from making the investment for want of funds? A.—That is correct, because our income is about between five and six hundred thousand dollars a month, and our repayments on investments and our ordinary income would be close upon $600,000 a month.

Q.—Let us speak of it as a real investment, put up for the purpose of staying up, is there anything that you can suggest objectionable about that from any standpoint? A.—It does not appear so to me, it frequently happens that a life insurance company or any other institution making large investments, because we have large investments to make, not only is our ordinary income over five million dollars a year without the re-payment of investments—of course we have our disbursements out of that in the shape of death claims and so forth—but we get in large blocks of money at times, large loans mature, and if we just waited for investments until that money was actually in hand we would be at a great disadvantage, and it has never occurred to me that there was anything improper or out of the way to anticipate a good investment. As you say this was not a permanent investment, but it did carry with it the option of a purchase out of which I thought that the company would make a very handsome profit if they had sold at the right time, and out of which I still think, because they still own the stock, I still think they will sell it at a price that will give it a very handsome profit. My own idea of the value of Dominion Coal stock is that it will ultimately sell at 150 to 200; that is my judgment; it is an exceedingly valuable property, and it is making money very rapidly; it is not paying dividends, and consequently the stock is depressed, but it is an immensely valuable property in railways, steamboats and unlimited areas of coal.

Q.—We have somewhat strayed from the point we were discussing, and that is the propriety or impropriety of anticipating the possession of a fund in the making of investments? A.—I am just giving you the facts and I am not willing to admit that it was not wise to do it, but that is only my judgment.

Q.—I want it first, and perhaps you will say you have answered that as fully as you desire to; I want first to disembarrass the case of the fact that in this case it was not a permanent investment, I want you to deal with the general principle of the making of permanent investments in advance of your being in funds to do so? A.—It has been the practice of the company for many years, both under Mr. Ramsay's management and under my own to take advantage of a good investment whenever the opportunity offers, whether we had the money on hand to do it or not, feeling quite sure —it very often happens, and that would not show in the books—there may be a large block of municipal debentures maturing, there may be a large loan of some kind maturing at a certain day, in two, three, four, six, eight weeks, and in anticipation of that, and with the fact before us of a good investment offering, we overdraw our account in the meantime, and always by the end of the year we have that covered, and there are times during the year when a very considerable balance would be lying at the bank, and there would be other times when we would be considerably overdrawn.

Q.—I suppose you always paid interest upon your over-drafts? A.—Yes.

Q.—At what rate, did it vary? A.—I think 5 per cent., we get the best rate we can, and it is generally I should say 5 per cent.; there might be a time when there is cheap money we would get a little better than five, but that would be the maximum I should think.

Q.—Is there any other circumstance that occurs to you in connection with the general principle, any other consideration? A.—No, I do not think there is.

Q.—You have spoken of the desirability of securing a satisfactory investment when you are not able immediately to pay for it out of your own funds? A.—Yes sir.

Q.—And you have spoken about the long practice of your company in that respect? A.—Yes.

Q.—Perhaps you have become acclimatized to it, so that you first endured, then pitied, then embraced the principle? A.—Possibly, but still I think it is a good thing to do and I think that it results in advantage to the company, and I do not see how it could do any harm. Let me give an illustration. We had an opportunity some time ago of purchasing one mil-

lion dollars of British Columbia 5 per cent. bonds, and if we had let that opportunity pass without overdrawing our bank account and getting them we would have made a loss of perhaps $60,000.

Q.—That is you would not have made a profit of $60,000? A.—Exactly, but we did make the profit. I use that as an illustration. That was a case where the Province of British Columbia did not want to put their securities upon the London market because the previous amount they had put on was still in the hands of the underwriters. I was aware of that, I had that information, and we made them a proposal to take their bonds, and keep them, and we got a very handsome investment which we would not have got if we had not done so.

Q.—If you had not borrowed the money? A.—Yes, temporarily.

Q.—I suppose I am not going to get any adverse criticism of the practise from you? A.—No sir, because I think it is right.

Q.—Go a step further; call loans are of course not very profitable, you can only get interest, that is all? A.—There are times when call loans are quite an advantage to us, times when we cannot get investments otherwise.

Q.—That is not the case we are speaking about? A.—Not in this case, but that was the point I was going to make, that it is an advantage at times to make call loans, and if you entirely refuse to make them you would not be able then to make them when you want to. It is a fair assumption.

Q.—That is perhaps something which as far as your company is concerned is theory, because you have never refused a satisfactory call loan for want of the funds to make it? A.—Oh yes, we have.

Q.—Have you driven away your borrowers that way? A.—To some extent; in Mr. Ramsay's time I think he used to have two or three million dollars in call loans at times, and since I became President that has not been the case, we have got it more into permanent investments.

Q.—That is rather an improvement in the general policy of investments, is it not? A.—I think so, it is desirable, I think Mr. Ramsay would have felt it desirable to get a permanent investment if he could, but when he could not do that he would put the money out on loan rather than have it lying in the bank, and times occur when that would be the case; there are times when it is very hard to find good investments.

Q.—But that is the difference between buying an investment to keep and lending money at a rate per cent? A.—It is, yes.

Q.—And you make interest upon your money in that way and no more? A.—No sir, that is correct.

Q.—Can I get you to go as far as this, that it is not desirable to make call loans as a matter of policy out of borrowed money? A.—That would depend altogether upon circumstances surrounding it. In this particular case which we are discussing there was an indirect advantage that fully justified it in my opinion.

Q.—I will analyze that for a moment; the only circumstance you have suggested is that you may perhaps discourage a borrower so that he won't come to you again; here Mr. Cox was the borrower? A.—No.

Q.—The Central Canada would come back to you? A.—Wait a moment; the Central Canada I have said frankly I have a controlling interest, but there are a large number of other shareholders in that company.

Q.—You said you considered that as yourself? A.—I think so, and I consider that company as the Canada Life, so close to myself that I am perfectly responsible for anything and everything they do; I want to say that; but I do not say that this particular loan can be justified upon the ground that we would lose the opportunity, although I believe that is the one solitary loan that was ever made to that institution so far as my memory goes at the moment; certainly it was all, because I recollect particulary, on Dominion Coal; that was the particular point that I enquired about, that is the only transaction on Dominion Coal. We would not have lost a customer by that, but we would have lost the opportunity of getting the stock at the price at which we got it, and that although the stock has greatly depreciated since it is still more than what we paid for it.

Q.—When you say you would have lost the opportunity of getting the stock at that figure if you had desired instead of taking an option you might have purchased? A.—We did not want to purchase at that time, we wanted to be a little more sure about what the coal was going to be.

Q.—You wanted an option to purchase, and they would wait the turn of the market? A.—We would wait

until we would be a little more satisfied of what the outcome of the coal company was to be.

Q.—Just another outcome of the principle, I want to discuss with you for a moment, and that is this, where the borrower and the lender are identified in person or in interest, where the borrower's business is to get the money as cheaply as he can, and the lender to sell it as dearly as he can, is not there a conflict of interest there, in principle? A.—I suppose there would be, but so far as the different institutions with which I am interested, and so far as their dealings or transactions the one with the other are concerned, each of these different institutions have thoroughly qualified honorable officers that make the very best bargain they can, and I do not think it will be found by a careful examination of every solitary transaction that has taken place between them that there has been any undue advantage taken by one upon the other. All these transactions will be found to have been made as closely and as carefully and as honorably as they could have been made if they were two corporations that had no relations whatever with each other in the way of common ownership.

Q.—Let me put that in a little different form; if you had had no interest whatever in Dominion Coal and had been utterly indifferent as to its success or failure, if you had no interest there, you would not have felt at all under any obligation to loan money for the purpose of buying stock in it? A.—I would have been entirely in favor of that transaction just as it took place if I had not had a dollar of interest in anything outside the Canada Life Assurance Company. I have no hesitation in saying that, because the transaction was right beyond any doubt, it was a legitimate business transaction and I consider no other interest—

Q.—That rather gets away from what I was desiring to ask you about, if you had stood perfectly indifferent with regard to Dominion Coal altogether, if you had known nothing about Dominion Coal, had no connection with it, and therefore knew nothing about it as an investment you would have been much more independent, would not you, in the matter of making a loan or not making a loan? A.—I would not have had any different view of that loan from what I took at the time, I would not, that is quite certain; there has been no transaction made with the Canada Life to my knowledge or belief because of any perconal consideration or because of any interest I had in any other thing—

Q.—My question does not imply that; what I am trying to do is to find out what the mental attitude of a man would be who was perfectly indifferent to the transaction which he is asked to assist with; for instance in respect to the Central Canada coming to you for a loan on Dominion Coal stock to somebody else, as to whom you were perfectly indifferent, as to whom you had no interest whatever, were to come to you and ask you to borrow money from the bank to lend upon the security of some stock you never heard of before and did not care anything about, and were not interested in, your attitude towards that borrower would I submit to you be a different attitude from the attitude you would have towards the Central Canada, identified with its interests? A.—If I did not know the borrower and did not know the security my attitude would be different, but if I did know the borrower and I knew him to be good, or the institution to be good, and if I did know the security and I knew it to be good, then I would advance the loan, but if you assume that the borrower is not known and the security was not known— you will perhaps permit me to say that while there may be objections urged against transactions between different companies in which I am interested I believe the fact that I do have information with reference to securities that are being created, of securities that are being sold, is of very great advantage to the Canada Life Assurance Company. I think it is a very great advantage to them, and I do not think that any disadvantage or any loss or any risk has been incurred because of that fact, but the fact that I happen to know a security and know it is all right, and I have varied experience in connection with, and that kind of transaction I mentioned a few minutes ago, the purchase of a million dollars of British Columbia bonds arose from the information that I had as director of another institution that would not buy them, and that was a purchase, there was no risk whatever in it—

Q.—You woud agree with me to this extent, whatever knowedge and skill you have the Canada Life is entitled to have the benefit of? A.—No sir,

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

not altogether; they only pay me $15,000 a year. I have said the Canada Life is the dearest thing I have. I have been working all my life for it, but I do not give all my time and energy for $15,000, nor would you.

Q.—Where you were a paid officer, because after all that is all you are? A.—Yes sir.

Q.—You are a paid officer of the Canada Life, you are paid to give it the benefit of your skill and your judgment? A.—I do the very best that I know how late and long.

Q.—You do that from a sense of obligation, and not as a matter of compliment? A.—I do it from a sense of obligation in consideration of my salary and in consideration of the large interests I have in it, and because of the pride I have in it, in building up an institution that is doing good in this country.

Q.—All roads lead to Rome—

MR. NESBITT: Before you part from that there is something the Senator should draw your attention to? A.—This particular transaction we are discussing, "Authority was given to the treasurer to make a loan to the Dominion Securities Corporation on a security of Dominion Coal Company's common stock with a margin of 20 points, the loan price not to exceed $50 per share; the Central Canada Loan & Savings Company to give its covenant to purchase the stock if required by the Canada Life at sufficient advance over the loan price to cover the principal of the loan and the accrued interest thereon. For every 100 shares loaned upon in this way the Canada Life to have an option to purchase ten shares for every 100 shares at $70 per share and interest up to date of the exercise of the option, $70, during the currency of the loan, the total extent of the advances under this arrangement to be decided upon by the treasurer in consultation with the following Committee: F. W. Gates; Dr. J. Hoskin, Z. A. Lash, A. Bruce, William Gibson." That is a minute that was made at the time. (Minute of February 10th, 1902.) I do not know whether I was present at that time.

Q.—Was that crystallized into an agreement? A.—I do not know sir, the chances are it would be.

MR. WATT: The agreement would be returned and cancelled when the loan was paid off.

MR. NESBITT: I want to draw your attention to the fact there are no more competent men in Canada or the United States to deal with such matters; they were specially appointed? A.—That is the point you will allow to be recorded. We have been discussing this matter as though the transaction was between myself as President of the Dominion Securities Corporation and myself as President of the Canada Life. In each case the directors of these companies are thoroughly honorable men and thoroughly competent to deal with these transactions, and they are not made by me, they are made by the Investment Committees on each side, and these gentlemen have no other interest than that of the Canada Life Assurance Company whom they are representing. I think that is an important point to emphasize. The discussion took the turn that it was impossible to make a bargain with myself, but I am not sure that I was present at all.

MR. SHEPLEY: You are largely interested in the bargain on both sides? A.—I am, and if there is anything improper about that of course that is a matter of which I have nothing to say.

Q.—Since this minute has been put before you I am informed there was an agreement upon carrying out those instructions, and that the agreement is not now in existence? A.—I presume it would be a letter, I do not know anything of that, there may be or may not have been.

Q.—Mr. Bruce says there was an agreement between the Central Canada? A.—Mr. Bruce is the Chairman of the Investment Committee and solicitor of the company.

Q.—Mr. Bruce was a member of the Committee that was to carry the transaction out? A.—Yes.

Q.—He was on the Committee with which the treasurer was to consult; now the treasurer states that that agreement has been destroyed.

MR. WATT: Mr. H. B. Walker was treasurer at that time, and I am unable to find any agreement relating to that. It has been our practice to return hypothecation agreements with the payment off of the loan, or to destroy them.

WITNESS: That would set forth the agreement. This transaction is however closed. It lasted 60 days.

MR. SHEPLEY: This agreement would be in duplicate or triplicate, the Dominion Securities Corporation would have one part, the Central Canada one part and the Canada Life one? A.—Possibly they would.

33rd day, June 1st, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—I would like more search to be made for that? A.—Yes, we will try and get it. There is the agreement anyway.

MR. HELLMUTH: I think the banks do not keep those call loan agreements? A.—They would soon have their vaults filled up.

MR. SHEPLEY: The time is not mentioned in this, you say it lasted 60 days: (Reads minute) "Authority was given the treasurer to make loans to the Dominion Securities Corporation on security of Dominion Coal Company's common stock with a margin of 20 points"—what does that mean? A.—The loan could not go within 20 points of the market value of the stock at the time.

Q.—Then there is the further restriction: "The loan price not to exceed $50 per share?" A.—They would loan $50 per share on the stock provided it was not worth less than $70.

Q.—If it went above $70 the restriction would be still $50? A.—Yes.

Q.—"The Central Canada Loan & Savings Company to give its covenant to purchase the stock if required by the Canada Life, at a sufficient advance over the loan price to cover the principal of the loan and interest accrued thereon?" A.—Yes, that would be for the purpose of giving the guarantee of the Central Canada to that loan, because if the stock went down, and if the Dominion Securities Corporation were not able to make good their covenant the Central Canada would have to do it, so that you can see that the loan was well guarded.

Q.—"For every 100 shares loaned upon in this way the Canada Life to have an option to purchase ten shares for every 100 at $70 per share and interest up to the date of the exercise of option"—then $70 is put in figures—"during the currency of the loan, the total extent of the advances under this arrangement to be decided upon by the treasurer in consultation with the following Committee"—then there are the names? A.—You will agree with me that that is a good, responsible Committee.

Q.—One would think so, there is nothing to be said to the contrary of that; the lease was made, and how long did the Dominion Steel Company keep up its rental? A.—I could not really remember that, but I could get that information.

Q.—You can remember that probably that the stock went down—we have the quotations here, the stock was at its highest in about from May to August, 1902, and then in 1903 it went steadily down from the beginning of the year apparently? A.—I do not remember that, that no doubt will be the correct information. I am afraid Mr. Shepley you have not a very good opinion of one of our principal Canadian industries. If you go down to Sydney and look at this enterprise you will be pleased to see the progress, prosperity exhibited, and the great value and wealth of the country.

Q.—Do you know whether the Central Canada made money out of its stock? A.—I would be surprised if they did not, they dealt in it, and we have a shrewd, competent manager, and he makes money out of these things when he can.

Q.—I come to another transaction in which there was Dominion Coal stock that figures; you remember when Mr. Ames failed there was a syndicate formed for the purpose of purchasing two particular stocks? A.—Let me ask you to use the word suspended, because he has paid all his creditors 100 cents on the dollar, everybody has been paid in full, or will be paid in full—they have all got security.

Q.—The information I have, and upon which I am asking you is obtained from the records of the company and from the officers of the company? A.—Of course they have had access to everything, and we are glad to have them have it; your auditors have been in all the companies for several days, and everything is wide open to them.

Q.—You are not refusing us anything we have asked? A.—No sir.

Q.—Do you remember about a syndicate being formed to purchase two certain stocks with the view of maintaining the market? A.—There was no such syndicate so far as I know in which the Canada Life was interested, and I do not know—I am quite sure there was nothing, because nothing of that kind would occur without my knowing it, and I am quite sure the Canada Life was not interested in any syndicate of that kind as far as I can remember. The treasurer just tells me of a joint transaction between the Bank of Commerce and the Canada Life for the purchase of two stocks, but I do not know that you would call it a syndicate. May I say at this point that it would be easier for you and fairer to me to obtain this information from the officers

33rd day, June 1st, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

of these different institutions, because while I do not wish to withhold or hesitate to answer or to shirk the responsibility of any of these transactions I am not familiar with all of them. You can quite understand the different institutions in which I am upon the directorate, and their transactions are very large and numerous and extend over a number of years—

Q.—I will try to bear that in mind, and not ask you too much about details; but were you aware that the Bank of Commerce and the Central Canada, and I suspect it was the National Trust Company did enter into an arrangement by which they agreed to purchase the stock, I do not know that underwrite is the correct word, but purchase these stocks and in the end the Canada Life acquired $110,000 of each? A.—I do not recollect that, but I do not hesitate to accept the responsibility for it if the treasurer says that was the case, but I do not recall the transaction.

Q.—I will leave that, because it will be better that somebody can tell us about it who can produce the books and speak about it.

MR. NESBITT: I was going to make a suggestion; the auditors have been into all these companies, and you know exactly what it is they suggest, if you will just state it to the Senator or any one, and just ask if that is so we will either assent or dissent and then we will get down to the specific thing—do you see what I mean?

MR. SHEPLEY: I understand what you mean? A.—I can refresh my memory if you wish to get the evidence from me.

MR. SHEPLEY: I will not pursue that enquiry at the present moment, I will leave that for the present; I will come back to it again. Now I am going to ask you whether the gentleman is here from the Dominion Securities Company with the books? A.—I think so.

Q.—Speaking generally about the transaction between the Securities Corporation and the Canada Life, how did the transactions take place, did the Dominion Securities Company sell at a profit or how did they deal with the Canada Life, differently from the way they dealt with others or the same way? A.—I should suppose knowing Mr. Watt as I do he would get a little the best price; he is a good, careful buyer, I do not think he would pay more than anybody else would, I could not speak positively as to that, the transactions will show that.

Q.—Then, Mr. Cox, I will have a portion of this statement put upon the record. I am reading from it, and it will be part of your evidence of course. It is a statement furnished by the Dominion Securities Company? A.—Had not you better get it in as a statement by the Dominion Securities Corporation? There may be transactions there I do not know anything at all about. I would know of them, but no doubt they are correct.

MR. SHEPLEY: (Reads from statement) Then in 1900 the bonds of the Ottawa Electric, the 5 per cent. bonds, were handled to the extent of $500,000 by the Corporation, and the Canada Life purchased $269,000 of that—from what Mr. Watt tells me I will modify that, the $269,000 of these bonds were exchanged for a like amount of the same company's securities, maturing in 1904. In the same year the Toronto Railway 18 year 4½ per cent. bonds were handled by the corporation to the extent of $200,000, all of which was sold to the Canada Life. In the same year the Canadian Northern Guaranteed, handled to the extent of $473,000 of which the Canada Life purchased $200,000. The Canadian Northern Land Grant, handled to the extent of $800,000, $300,000, of which sold to the Canada Life. In 1901 the Toronto Railway 17 year 4½, $580,000, $50,000 sold to the Canada Life. The Toronto Electric Light, 4½ bonds handled to the extent of a million, $350,000 to the Canada Life. The Kingston & Pembroke Railway, 4½, handled to the extent of $510,000, $300,000 to the Canada Life. Then in 1902 the Toronto Railway Company handled to the extent of $60,000, $25,000 sold to the Canada Life. Bay of Quinte Railway 5 per cent. bonds, $650,000, of which the Canada Life got $150,000. Dominion Rolling Stock Company, $300,000, the Canada Life got all. 1903 the Imperial Rolling Stock Company's bonds, series A 5 per cent. bonds—that was a purchase on joint account between the Central Canada and the Canada Life and Bank of Commerce. The statement is made that the Canada Life was given one-third interest at cost. That was handled to the extent of $1,333,000, $400,000 was sold upon this joint account. The Imperial Light, Heat & Power, 5 per cent. bonds, $600,000, of which the Canada Life got $250,000. The Wyandotte & Detroit Railway, $50,000, the Canada Life got all. Pere Marquette, 4½ per cent., $350,000, the

Canada Life $250,000. The Vancouver Power, 4½ per cent., $875,000, the Canada Life took $250,000. Lake Erie & Detroit River Railway, 5 per cent., three millions, the Canada Life took $500,000. 1904 the Minneapolis Street Railway, 5 per cent. bonds, $75,000, of which the Canada Life got $25,000. Union Electric Company of St. Louis, $200,000, the Canada Life got all. Hamilton Cataract Power, 5 per cent. bonds, $125,000, Canada Life takes $100,000. Cape Breton Real Estate Company's bonds, $180,000, the Canada Life took all. Dominion Rolling Stock Company, $80,000, the Canada Life took all. The Sao Paulo Tramway, 5 per cent., $500,000, the Canada Life took $200,000. Crow's Nest Pass Electric Light & Power Company, $125,000, Canada Life takes all. The Toronto & York Radial, 5 per cent., $450,000, Canada Life $100,000. Morrissey, Michel & Furney Railway Company, $100,000, Canada Life takes all. In 1905 the Winnipeg Electric 5 per cent., $400,000, Canada Life $25,000. Niagara, St. Catharines & Toronto Railway, $100,000, Canada Life $50,000. Grand Trunk Pacific, 4 per cent., one million dollars, Canada Life $125,000. New Brunswick Coal & Railway Company, 4 per cent. bonds, $368,000, Canada Life got $50,000. The Lindsay, Bobcaygeon & Pontypool, $500,000, Canada Life got all.

WITNESS: Guaranteed by the Canadian Pacific Railway.

Q.—Those Grand Trunk Pacific bonds, are those the bonds that are guaranteed by the Grand Trunk? A.—Yes, they are sold now.

Q.—LaClade Gas Company, that is St. Louis, Missouri, $100,000, Canada Life takes all. Dominion Coal 5 per cent. bonds, $1,129,000, Canada Life $71,000. The Shawinigan Water & Power Company 5 per cent. bonds, $1,000,000, Canada Life $250,000. The Imperial Rolling Stock K series, 4½ per cent. $1,000,000; Canada Life $250,000. The total bonds handled by the Securities Corporation out of the Canada Life made purchases, $18,813,000, the Canada Life taking $6,730,000, less $250,000.

MR. NESBITT: The total municipal business, $11,505,500; Corporation, $31,424,317; or a total of $42,929,817; out of that the Canada Life's total purchases during that period were about $865,130 out of a total practically of $43,000,000.

MR. SHEPLEY: As these figures are larger as to purchases than those, it is necessary to say that this includes what the Central Canada did in the year 1900.

MR. NESBITT: Yes.

MR. WATT: Also where the Dominion Securities Company acted as brokers they were not owners of the bonds.

MR. SHEPLEY: Will you between now and Monday plase qualify yourself to tell us about your own holding of Dominion Coal and the prices at which you purchased? A.—Yes, I will get this for you to-morrow morning, if you will take it and it would suit me very much better. I am kept away from other duties and I am very anxious to get through as fast as I can.

Q.—If you will have it sent to me to-morrow morning that will be entirely satisfactory? A.—But that won't mean you will take me here to-morrow morning, that is what I was suggesting?

MR. SHEPLEY: The Commission has not been sitting on Saturday, and if you have to be away on Monday we will arrange to go on with somebody else? A.—I have not to be away on Monday any more than any other day; I would like to be in Ottawa now if I could.

Q.—I am told you have more than once perhaps considered the question as to the powers of the Canada Life in respect of investments, the range of investments they are authorized to deal in? A.—We have been governed entirely in that by the advice of our solicitor, who has been for many years the solicitor of the company, and we believe that we have kept strictly within our rights, and we have kept—I may say here, out of about $31,000,000 of investments over thirty millions are in Canadian securities. We have not invested in foreign securities at all to any extent, perhaps five or six hundred thousand dollars, in compliance with the laws of other countries in which we are doing business where we have to deposit the securities of that country. We have as I say over thirty millions of our investments in Canada and Canadian Securities, and we think within the rights of our Charter, and so advised by our solicitor, in whose opinion we have every confidence.

Q.—You are entirely familiar with the advice you have received from time

to time, and you can probably tell me what you, guided by that advice have conceived to be your powers under your statute? A.—We think that all the investments that we have made are within these powers. You have them in printed detail.

Q.—What the investments are? A.—Yes sir. There have been in the possession of yourself or the Commission for a couple of months I think.

Q.—That is quite true; this is what you are referring to? A.—Yes sir, that is.

Q.—The Company's special Act of Incorporation? A.—Yes.

Q.—That was an Act of the late Province of Canada? A.—Yes sir.

Q.—(Reads from Act) "It is declared to be lawful for the said Corporation to hold for the purpose of investing therein any part of their own funds, etc. (Reads down to the words "as occasions may render expedient") —"other chartered companies," what construction has been put upon that in your practice? A.—I do not know what construction has been put upon that particular clause, but I know that every investment that we have made has been upon the advice of our solicitor Mr. Bruce.

Q.—You do not mean to say that you have not considered with your solicitor from time to time the meaning of this clause? A.—We have never had any question raised by the Insurance Department or by anybody else until the purchase of the securities of the Sao Paulo Company, and they were immediately sold, although we were advised by our solicitor that they were within our powers, because it was an incorporated company in Canada, but in deference to the opinion of the Superintendent of Insurance we disposed of those and I think one or two other securities, if I remember rightly, the Twin City. He also took exception to the holding of Dominion Coal stock. We told him that we would sell as soon as we could sell it without loss, but knowing as I do the intrinsic value of that property, and believing it to be worth every dollar it had cost us, I do not want to sell it until we get our money out of it. We had experience for instance with Canadian Pacific stock, we bought it, and in 1892 it went down as low as 37, and if they had sold it there would have been very serious loss, but knowing then, as I know about the coal, it was all right and we kept it and ultimately sold it without any loss. And I think you will agree with me that is a wise thing to do. We do not wish to run counter to the opinion of the Insurance Department or the Government Officials, even although their judgment may not be in accord with ours. They have never raised any question so far, excepting in respect to these particular securities which I have named, and in two of them we have already disposed of them, and disposed of them at a profit. The Dominion Coal we still hold because we know that it will come back to the value and let us out with a profit rather than a loss.

Q.—Take Dominion Coal Company's stock, that is a very good instance, have you any authority to invest in that unless it is under the words, "Or other chartered companies"? A.—Mr. Bruce is there, let him answer that.

MR. NESBITT: "And other securities," I would suggest.

MR. SHEPLEY: If you have not discussed it so that you can not express an opinion— A.—I am of the opinion that that does give us the power; that is the opinion I have always had and I have never had any reason to doubt it or question it. It has never been questioned by the Insurance Department, although we have been examined by the Department every year since the establishment of that. I think we have paid, it is safe to say we have paid how many thousand dollars for our examination (Inquiring from one of the officers of the Company)—

MR. McCARTHY: At the beginning of the Investigation you yourself put in evidence correspondence passed between the Department and the Canada Life with reference to the question, in which the solicitors on both sides had discussed the question, and it was still remaining in abeyance.

MR. SHEPLEY: I am glad you reminded me of that; that has been fully detailed in the correspondence, there is no doubt about that? A.—It is only quite recently that any question was ever raised. We thought we had always very wide powers, and we have always congratulated ourselves on having powers much wider than the companies more recently organized.

Q.—You do not consider your power has been curtailed by the general Act? A.—We never thought of such a thing.

Q.—Then you do not think so? A.—We certainly do not think so; we would feel it a great hardship to have our vested rights interfered with.

Q.—It is in the same line, I do not suggest you have ever one it—would you think it within your power to invest in commercial corporations, trading corporations, say manufacturing, milling? A.—If we had an opportunity, was requested to do that, I would consult our solicitor, and if he said it was right to do it under that Act, and we thought it was prudent to do it I would do it; if he said it was not, I would not.

Q.—You would be guided entirely by your solicitor? A.—He has kept us right for over half a century.

Q.—Of course as you say you feel that you can congratulate your own company upon the possession of those wide powers? A.—Yes sir, and it has enabled us to keep the whole of our $30,000,000 of assets in this country, helping us to develop its resources and build up the country.

Q.—Let me see whether that is because you have confidence in your own management or because you think it is wise in principle, would you extend those powers to other companies? A.—I do not think that that is a question I should answer, because no matter—

MR. NESBITT: I have not as yet taken any objection, but on behalf of the public I do protest against you asking the House of Lords, the Senator, what he would do about legislation—

MR. SHEPLEY: He is not here as the House of Lords. A.—I will have that question before me on the Banking and Commerce Committee.

MR. SHEPLEY: I think the point is well taken as far as you are concerned. There are some of the matters to which you referred in your address at the last Annual Meeting, that I want to speak about to you briefly. The first part of your address is directed towards answering certain criticisms which had been expressed, or which you understood to have been expressed in respect to the inspection of your company A.—Yes sir.

Q.—And you make a statement in regard to the inspections, which I want to have part of the record. You say: "Until recently many persons seem to have been unaware that Canadian Life Insurance Companies are each year examined by the Dominion Superintendent of Insurance at their Head Office; but no matter how exacting or how thorough this examination may be, or however satisfactory may be the condition of the company, no statement or certificate of any kind is ever given by the Superintendent to the company for transmission to its policy holders. The only report that the Superintendent makes, in accordance with the Insurance Act is that made to the Minister of Finance and published annually in the public Blue Book. In addition to this yearly examination by the Canadian Superintendent of Insurance, it has been customary for the Insurance Department of the State of Michigan, where we first entered the United States to transact business, to make a periodical examination of our Company, especially for the protection and information of our policy holders in the United States, where we have over $20,000,000 of business in force"—How long has that examination been taking place? A.—Takes place every five years.

Q.—Since you first did business? A.—Yes.

Q.—And that is how many years ago? A.—That would be 1889, that would be seventeen years.

Q.—You have quinquennial examination by the Commissioner for Michigan; does he come to your head office here? A.—Yes sir.

Q.—What sort of examination is it that he makes? A.—He makes a very thorough examination, spends with his staff several days going exhaustively into everything. When you say quinquennial I do not think there is any fixed period. he may come two or three years in succession, and he may not come for four or five years, we do not know when he is coming as a rule.

Q.—Mr. Watt says he was there in 1899, before moving down? A.—Yes.

Q.—That would be the last inspection that was made, but I suppose he is about due for another one now? A.—No, he made one quite recently, in this last year; it is referred to in this report.

Q.—Then your address goes on: "On the 25th May last we invited the Commissioner for the State of Ohio to join with the Commissioner for Michigan in making the usual periodical examination of the company. We also intimated to the officers of the Canadian Insurance Department at Ottawa that we should be glad to have them

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

join in this investigation, but the Canadian Superintendent having only a few months before made his usual examination, did not think it necessary to make a further one. The Commissioner for Ohio also had such confidence in the ability and integrity of the Commissioner for Michigan that he considered it unnecessary to join in the examination which was duly made by the officials of the latter Department"—that was in May of last year? A.—Yes sir. He made his examination during the previous year, or during the previous six months I fancy, during that current year that was then under consideration.

Q.—The Commissioner for the State of Ohio did not avail himself of the invitation? A.—No. But any of these States may be examined by any of them at any time. They do not give us any notice, that is any long notice; they may say we will be there at such a day to examine, and they come in and make a very, very thorough examination. We have been examined by several States of the Union.

Q.—I gathered by this the Commissioner rather waived examination relying upon the examination made by the Michigan Officials? A.—Yes, and by the Canadian. The American Departments all have great confidence in our Canadian Insurance Departments. I remember the Commissioner for the State of New York, when we were applying for a license there said they waived the usual examination before granting the license, after examining the report of the Canadian Department, saying they had so much confidence in the Department, that they did not hesitate to grant our license.

Q.—The next statement made in the address is: "Again in the month of September of last year, when the public mind was a good deal agitated over the investigation in New York, we renewed the request to the Canadian Superintendent of Insurance that we should be glad if he would make such further examination of all our affairs as he might deem necessary. We were however officially informed that the accounts for the year 1904 had all been verified and the securities examined, and that any further examination would be made at the Superintendent's regular approaching examination." "In the month of November last"—that would be November of last year, 1905? A.—Yes.

Q.—"—during the Session of the Armstrong Commission in New York, we offered to send our officers with official documents to New York to give evidence before that Committee appointed by the State of New York, where we also transact business. Not only did we offer to give evidence in New York but we invited the Armstrong Commission to send their experts to our head office and make an examination of affairs here?" A.—Yes sir.

Q.—Your suggestion to the Armstrong Committee was not taken advantage of by that Committee? A.—No sir.

Q.—And your affairs were not passed in review before that Committee at all? A.—No sir, but we got notice to be ready, and on call, and we were ready, but we were not called.

Q.—"You will thus see that we have made two requests to the Canadian Superintendent of Insurance for a special examination, one request to the Commissioner of Ohio, one to the Commissioner for Michigan, and two offers to the Armstrong Committee of the New York Legislature. The Directors and Officers of this Company submit that the foregoing statement of facts will satisfy any fair minded person that the company has shown a disposition to submit its affairs for examination to any recognized existing authority." You deal next with the question of the capital stock, and you point out what the charter provisions are, and you say that the authority to increase the capital stock to £250,000, or $1,000,000, was exercised in 1855 and 1856 ,and payments were made on account of subscribed capital in various years following until in 1864 the amount paid up was $125,000, at which it remained until 1900"— You deal then with the payment up of the balance. Then you say, "The company now having a paid up capital of $1,000,000 of which 94 per cent. was paid in actual cash, and the balance of 6 per cent. by bonus out of profits during the early years of the company when little or no cash dividends were paid." You have reference there in that 6 per cent. to the payments by way of bonus—It was some sixty odd thousand dollars that was applied? A.—That would be six per cent. of a million, that was part of the $125,000. The $875,000 is all paid in cash.

Q.—The next clause is about the allocation of the profits, and that I have asked you about already, and I shall not take you over that. This is a statement however that I do want to ask you about: "I will ask you to bear in mind that the $1,000,000 paid in

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

by the shareholders earns at the average rate of the company's invested funds about $47,000, leaving only about $33,000 per year from the profits of the company to make up the 8 per cent. which they received as dividends; it took practically the same amount to pay 30 per cent. on the $125,000 prior to 1900"—you are speaking there of an average rate of interest upon the company's invested funds? A.—Yes sir.

Q.—I take it you mean by that that the average rate is 4.7? A.—What I had in my mind was this: the rate last year was 4.67, that would be $46,700, and I used the words about $47,000; $46,700 was the exact figure.

Q.—Then you make certain comparisons which I want to ask you about—I should ask you as a matter of form, that statement as to the average rate of interest for the current year is accurate, is it, 4.67? A.—They remind me that 4.67 would be the rate excluding profits from the sales of securities, and 4.90 including profits.

Q.—You go on to say "That this stock dividend is no hardship upon its policy holders is evidenced from the fact that when spread over the 107,000,000 of business in force this dividend (over and above the interest earned) costs the policyholders only about thirty cents per thousand of insurance per year, and for this they have not only the guarantee of $1,000,000 additional security, but a continuity of management, and an assurance that it is in the shareholders' interest to make as large profits for policyholders as possible. Will you also bear in mind that the shareholders put up $1,000,000, every cent of which has to be lost before any policyholder can lose a dollar"? A.—Trying to show the advantage of a stock company over a mutual.

Q.—And you are speaking of the chance of loss to either being very remote, and that is something we have already discussed. Then you speak of the risk that lasted so long; is it the fact that as late as 1899 policyholders were objecting to insure with your company by reason of there not being large capital behind? A.—I don't think they were, no sir.

Q.—You say "I may also say that prior to the year in which the uncalled capital was called up, our agents were met by policyholders and intending insurers with the assertion that it was not right that such a small capital should control such a large amount of assets and business." We were met by that, but I don't know that any person refused to insure with us on that account, but that was one of the arguments against the company. Rival agents will use any kind of argument they can to influence an insurer.

Q.—And then you add, "It was also felt that the $1,000,000 of fully paid up cash capital would include the standing of the company in the United Kingdom and in the United States, where we had, when we first commenced business there, to make the high reputation we enjoy in Canada for stability and integrity." I suppose that that may be a theory, but I suppose your standing was well established both in the United Kingdom and in the United States before 1900? A.—We only went to the United Kingdom in 1900, it was not established at all.

Q.—You are quite right? A.—And in the United States we have a long road to travel to get our reputation established as high as it is in Canada, and you will readily see that a paid up cash capital of $1,000,000 would assist us, would strengthen our position.

Q.—They say it is a poor rule that won't work both ways, but we hear a good deal from policyholders about mutualization? A.—I think they have a long ways to travel before they get that, too.

Q.—If there is a strong feeling among intending insurers in favor of a mutual company as against a stock company, the fact that you had very small capital ought to help you rather than hinder you in getting business? A.—We will find the persons all through the country that will be in favor of mutual companies, and we will find persons in favor of stock companies, that is one of the questions with which I have had to deal in the field work for many years, and I have I think arguments in my own experience in favor of stock companies, and if you would like me to give them to you now I will do so, I will give them to you any time you like. There are arguments both ways.

Q.—If there is anything in addition to the brief discussion we had on Wednesday I think it would be interesting to us to know what an experienced insurance man has to say on the question? A.—I think in the words I have used in my report, that it gives continuity of management, where there are shareholders in a company you know that these share-

33rd day, June 1st, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

holders are looking after the interest of the company when the control and management are in a large number of policy holders all over the country there is no concentrated interest in the same way. As to the results of minimum companies and stock companies I may be permitted I supposed to use my own policies. I am insured I think in thirteen different companies, English, American and Canadian. I am insured in three mutual companies.

Q.—Three out of the thirteen? A.—Yes. One is the Scottish Widow's Fund, of Edinburgh, the oldest and most successful of the Scotch companies; the other is the Mutual Life of New York, the largest mutual company in the world; and the other is a Canadian company. In comparing the results of my policy in the Canada Life Assurance Company with any of these three companies we get a better result from the stock company, notwithstanding the fact that we have, as you heard yesterday, paid for a time 30 per cent. dividend to our shareholders; of course it is only a small amount, the 30 per cent. These statements are borne out by actual facts, and policies in existence from fifteen to thirty years.

Q.—Your policies in the Canada Life are not minimum policies? A.—Yes sir, I have some minimum policies.

Q.—You have sampled them all? A.—Yes sir, I have, in all the companies nearly. I have not only been preaching, but I have been practising life insurance, all my life.

Q.—You take up next, the question of the strengthening of the reserve; with respect to the strengthening of the reserves, I think you told me pretty fully about that on Wednesday? A.—Yes I would be glad to answer any further suggestions you may desire to put. I certainly think that we pursued the right policy. I have no misgiving whatever upon that point. And in speaking of what reserves a company should put up it is very largely a question of opinion, and in order to form a thoroughly correct opinion on that you must know what the rate of interest is going to be for forty or fifty years, it is not just what it is for the present of course; the important question is what is it going to be for the next forty or fifty years, because a person insuring now, people insuring in 1906 will be living, 1956, fifty years hence, and the question as to the ability of the company to pay will depend upon the reserve that they put up in the meantime, and the rate of interest has a very important bearing upon the earning power of a company. It makes a very great difference.

Q.—I think we may pass upon that. You spoke very fully about that on Wednesday in answer to the questions I put to you. Then with regard to the minimum system I shall be glad if you will give the Board a statement of the origin and purpose of minimum policies before we criticise them at all, let us find out what they are? A.—You would get that very much better from the actuary, but if you insist upon having it from me—

Q.—Do not put it insist? A.—I mean to say if you prefer.

Q.—I should like to have a statement from you upon that, if you do not doubt your competency to make a statement about that? A.—I doubt my ability to do it as well as an actuary can do it. I think if you would allow Mr. Dawson to take Mr. Sanderson on that it would be easier for both you and myself, but I will give it to you.

Q.—Yes, please; I have seen it stated before there were some underlying reason for adopting that method of insurance at the time it was adopted? A.—Well, I think I referred to that in my statement, if I remember rightly. The minimum rate, that is what you want me to explain. I will explain to you as I have I think to thousands of people.

Q.—I would like you to tell us first about the business reasons for that insurance being adopted at the time it was? A.—In the first place, Mr. Shepley it was done during Ramsay's time I was not even a director of the company at that time.

Q.—You were a very active agent at the time? A.—Yes.

Q.—And you would know? A.—And insured a good many people under this system. I believe I gave that insurance cheaper than they should have had it, I think it was a mistake on the part of the company, but it was done, and it will turn out all right I have no doubt, Take a man forty years of age on a whole life policy he would pay $305 a year for a $10,000 policy with full profits. He would pay for the same policy up on the whole life system under a mini-

mum policy $247. If I were trying to insure you I would put these two rates before you and I would say from the inception of the company down to the present time the average rate of profit per year per thousand has been $20 per year on each thousand; during the last ten years it has been at the rate of 2½ per cent. or $25 per year per thousand. We think it safe to assume that we will be able to give for the future at least 1¼ per cent. per annum, or $12.50 a thousand. Acting upon that assumption we will give you the immediate benefit of a reduction in your premium equal to that 1¼ per cent. profit. and if you take that plan you will pay $247 for your $10,000 policy in place of $305; but it is upon condition that if the profits are as we hope they will be, more than 1¼ per cent. you will get the additional amount, if they are 2¼ per cent. you will get 1 per cent.

Q.—You already have 1¼ in return as part of the premiums? A.—Yes.

Q.—You have been paid that in that way, and you will get whatever balance there is? A.—Yes, and if our profits are not equal to 1¼ per cent. the difference between what you do get and the 1¼ will be deducted from your premium.

JUDGE MacTAVISH: Deducted from the policy? A.—Made a lien upon the policy.

Q.—That is if you do not earn one and a quarter per cent. which you are now paying, by way of reduced premiums, you will have to make it good? A.—Yes.

JUDGE MacTAVISH: If the profits are more than 1¼ per cent. the assured gets the benefit of the excess in reduction of premiums? A.—Gets it either in reduction of premiums or an increase in the sum assured, at his option. As a bonus addition, or reduction, or in cash. Well, now, for the years from the time that system was adopted down to 1895 there was an addition to the sum assured; they got an amount in excess of the 1¼ that they had already received. They got an increase. And this is what has caused the commotion; when we decided to change our reserves, in place of declaring as we had been doing, 2½ and 2 5-8ths on previous occasions, the rate declared was ¾ of 1 per cent.; that was $7.50 a year. Instead of an addition to the sum assured, as they had had, that was a lien of $5 a thousand for that period.

MR. SHEPLEY: That is the difference between ¾ per cent. and 1¼ per cent. was put on each policy by way of lien? A.—Yes, because we did not come up to the 1¼ that year. Now the next year, the next quinquennial division, the rate was 1 per cent.; the rate of bonus declared was 1 per cent., and consequently a further lien of ¼ per cent. went upon the policies. Now persons who had allowed the profits in the previous years under this system to be added to their policies still had a good deal more than the face value of their policy. It did not, by a long way, exceed the amount that had been added on these minimum policies; but where persons had received their profits in cash, then this lien went on and the face value of the policy was reduced. Now the reserves have all been completed, the increase of the reserves having all been completed, I think it quite proper to say, that I believe that the coming quinquennial division of profits that that lien will be substantially reduced, if not wiped out, and that they will go on after that getting additions. Now I wish to say in making that estimate, that I may be over estimating what the results will be, but that is my own personal judgment. Now as to the changing of the reserves, because that naturally comes in at this point, to justify that. Within the last few years no less than eight of the prominent leading English and Scotch Life Insurance Companies have passed their dividends altogether, have given no dividend whatever. I have a policy myself in the Standard Life Assurance Company upon which at this time I would be entitled to a quinquennial addition of $1,750, if they had given the same rate that they did upon the last division. Now I got a circular to-day advising me that that quinquennial distribution had been passed altogether for the purpose of strengthening their reserves and that I will get nothing at all. Now I think more of that company and feel safer with my policy in it than I would if I had got the $1,750 bonus, because what we want in life insurance is absolute security.

Q.—That company has administered the sincerest kind of flattery to you; they have followed your lead. A.—They did the right thing, because a policyholder who is taking insurance for the protection of his family—it does not make such difference to him whether he gets a few hundreds more or less added to his policy, but it does

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

make a great difference to him and to his family to know that there is security beyond peradventure, beyond the shadow of a doubt. That is what life insurance is for.

Q.—The manifest argument against that—if there is an argument against it—is that the man has been paying more premiums in the expectation of having the addition made to his policy, and his policy might have been left at the same amount by the payment of a smaller premium. A.—Well, we considered that very fully in changing our reserves; we considered every class of policyholder, and you cannot adopt a general principle like that without doing, perhaps, an injustice to some few people. You cannot possibly adopt a principle of that kind without doing an injustice, perhaps, to a few, but you take the old policyholder, a man say sufficiently old to make it probable that his policy will become a claim before we recovered from this increasing of our reserve; in that case in our company the results have been so extraordinarily satisfactory that he could well afford to take a little less for one or two terms. If, on the other hand, he was a new policyholder, had only been ten or twelve years insured; his family, if his policy became a claim, would get a great deal more than what he had paid in, with accumulations. The old policyholder because the results had been spread over all these years, so extremely satisfactory that he could not complain, and the new man had paid in so little that it would not result in any loss to his family. We considered that with the utmost care. Some of our policyholder directors were in favor of passing our bonus altogether, but what we did was to spread it over a longer term and we paid a moderate profit; we paid ¾ of one per cent., which was low as compared with what we had been doing, but it was a fair amount and it was only for the one period. The next period we came up to one per cent., and the next period we will go on our way in a better position to pay profits than we would have been if we had not changed our reserves, because we have 2½ millions more money, not distributed to the shareholders or dissipated in any way, but in the vaults of the company, earning interest, to increase the dividend paying power of the company in its future divisions of profit. We have ordinary life policies in the Canada Life where the application of the profits has entirely wiped out the premium and where the policyholder is in receipt of an annuity. Take for instance Sir Oliver Mowat,

MR. BRUCE: Mr. Clarke Gamble was receiving $399 on a $4,000 policy. A.—The solicitor reminds me that Mr. Clarke Gamble was receiving on a $4,000 policy, $399, or 10 per cent. His premiums were entirely extinguished and he was receiving $399 as a dividend. Now I say that if his payment is slightly reduced by the policy we have perused in strengthening the reserves of the company, he has no reason to complain when he is getting such exceptionally favorable results. If he had taken his profits as a bonus in place of reduction of premium, his policy would be more than double. So that with results of that kind I say that the old policyholder, whose policy may become a claim, is not unfairly dealt with by this action of the company, and the younger policyholder who has only paid ten or fifteen years, has no reason to complain, because if his policy becomes a claim his family will have received much more than the amount he paid in, with interest; and if his policy does not become a claim he will not suffer by this because of the increased dividend paying power of the company by reason of its increased reserve.

MR. SHEPLEY: As I understand from what you have said, you put the dissatisfaction—I do not think that is too strong a word, because there is dissatisfaction of the minimum policyholder, upon the circumstance that you have adopted the policy that you did with respect to strengthening the reserves? A.—Yes, sir. I think the amount of dissatisfaction amongst our policyholders is not 3 per cent. of our total number; and I have never yet found a reasonable man that I could not satisfy with the statements I have made to this honorable court to-day, that his contract was a perfectly fair one, and when he understands it he would like to get another one of the same kind, but we cannot give it to him; we have discontinued that largely because of the possibility of misrepresentation. Rival agents would say, "you look at your policy and you will see that you have not got a thousand dollar policy at all, because it is subject to diminution or increase as the case may be." We found it so grossly misrepresented, and policyholders affected by it that we discontinued it, and discontinued it also by reason of

the fact that it was giving the assured more value than we could rightly afford to give them in view of the greatly decreased rate of interest that we are earning. Let me illustrate this point. We have in round figures 30 millions of money invested. It is quite fair and quite within the mark to say that the average rate of interest has been decreased by at least 2 per cent. per annum from the time that minimum system was adopted until the present time. It was as easy to lend money 20 years ago at 6 per cent. as it is now to lend it at 4. If you take 2 per cent. on 30 millions of dollars, that is $600,000 a year, and if you take that over the quinquennial period of distribution of profits, that is three millions of dollars. Without accumulating the interest it gives us about 3½ millions of dollars less to deal with as a divisible surplus at each division of profits. If the public understands that and we have an opportunity of explaining to them we find them satisfied. Therefore I say we have no important body of dissatisfied policyholders. We have just a few and when we are able to reach them and explain the matter to them, as I have explained it to this honorable court to-day, they are satisfied; we almost invariably get an additional policy from a dissatisfied policyholder when we get the facts before him.

Q.—Mr. Watt has just handed me a statement which illustrates what you have just stated about the decline in the rate of interest and bears out what you have said. I understand this indicates what your interest earning has been, and in the second line what has been added when you include the profits on securities. A.—Yes, that is practically a confirmation of what I have said, from 633 to 424.

Q.—I understand from Mr. Watt that that is a statement of the actual earnings in respect of interest and in respect of profits during these years. Where the second line is blank there were no profits. I put that in. (Exhibit 184.) What company was it that strengthened its reserves and passed its dividend? A.—The one I spoke of was the Standard Life, doing business practically all over the world. One of the oldest English companies doing business in Canada. Their head office for Canada is in Montreal.

Q.—Have you any objection to my making use of this circular? A.—No, sir.

Q.—This is a circular letter in answer to your inquiry regarding the bonus on your policy. "I hope to be able to send you shortly a copy of the report in which full particulars will be given of the result of the recent investigation and the decision at which the Company has arrived regarding the disposal of the surplus, at the Annual Meeting held in Edinburgh, 10th May last." What investigation is spoken of there? A.—That is what they call their quinquennial investigation. At the quinquennial period they make a revaluation of all their assets and a revaluation of their policies.

Q.—That is what they call an investigation? A.—Yes.

Q.—It is a domestic inquiry? A.—Yes, they investigate, themselves for the purpose of knowing what surplus they have available for distribution.

Q.—They have intimated their intention to pay an intermediate bonus on all participating policies becoming claims before the next investigation at the rate of £1 per cent. per annum. A.—You asked me the question what other companies had done it. With your permission I will give you the names of them. Companies that have passed their dividends entirely to policyholders for the purpose of strengthening their reserves. The Eagle Insurance Company of England in 1897. The Gresham Life of London in 1900. The Life Association of Scotland in 1901. The Citizens in 1901. The British Empire in 1901. The London Edinburgh and Glasgow in 1895. The Actuary reminds me—I have given the name of the British Empire—their reduction applies only to their Canadian business. They passed the bonus only upon their Canadian business. Why they have done that I do not know. I am a policyholder in that company and I must find out.

Q.—Perhaps because you and I were policyholders in it. A.—I am and I will find out why they have done that. The actuary tells me that the Canadian rates are lower than the English rates. Not lower than ours. The other is the London Edinburgh and Glasgow in 1895, the National of Ireland in 1892. And the last is the Standard Life in 1905. The company I have just given you.

Q.—I was going to ask you about this Standard Life, as to which we have an explicit statement on the subject by the company itself, whether you gather from this that the reserves were written upon a lower rate than they had been, was that the method?

33rd day, June 1st, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

A.—A lower rate of interest adopted, yes sir.

Q.—At what rate were they computing the reserves prior to this strengthening? A.—3½ and 4. 3½ on their home business and 4 per cent. on their Canadian business. Now they have come down to 3 per cent. on their home business and 3½, which is the same as ours, upon their Canadian business.

MR. LANGMUIR: Is there an adjudgment in the mortality table too? A.—Yes, sir, there is a change in that. The actuary informs me that it is a material change. It is about the same as the H. M. table that we are using but more severe than the one they have been using. It may not be out of place to say here that we have over 40 per cent. of our business now upon a 3 per cent. basis, which is one ½ per cent. more severe; but none of our old policyholders are affected by that difference. We made new rates and adopted a new basis. My own opinion is, if I may express it here, that every insurance company should look forward in the future to a 2½ to 3 per cent. rate at the very outside. I think that in 40 years from now the rate of interest will be so reduced by the constantly increasing wealth of the country that it will be hard to find safe investments upon anything higher than a 3 per cent. rate, 3 to 3½ at the outside, and if that is the case the reserves should be held upon a 2½ per cent. basis.

MR. SHEPLEY: I hope that will not come very soon. A.—I can remember in my life-time and I do not like to admit that I am an old man, borrowing money at 12 per cent. on mortgage when I got the first little home I built.

Q.—Are you sure you mean borrowing? Perhaps lend—— A.—No sir, I borrowed $800 on the first little home I built and I paid 12 per cent. interest and it was not considered at all an exorbitant rate of interest at that time for a loan of that kind, and I paid the solicitor who negotiated the loan for me, 5 per cent. commission for doing it.

MR. NESBITT: Was that in Jerusalem? A.—No sir, that was in the town of Peterborough. The solicitor afterwards became the County Judge there, and the lender was a Church of England Clergyman. I am not saying that disrespectfully of them at all, but it illustrates I think that in 40 or 50 years from now it is not unreasonable to imagine that the rate of interest made be 3 or 3½ per cent., because now 5 per cent. is a maximum rate, a fall of 7 per cent.

MR. SHEPLEY: You perhaps will not have any objection to my having this put in as an exhibit? A.—No sir.

Q.—In speaking of the minimum policy you spoke of $12.50 for a thousand of Insurance? A.—That is 1¼ per cent. on the sum assured, yes sir.

Q.—It is perhaps good as an analogy, but is it the real principle upon which to calculate the rate of interest? A.—I do not think I follow you. The 1¼ per cent. of which I spoke on the face of a policy for $1,000, would be $12.50.

Q.—What you really earn your interest upon is not the face of the policy at all but the amount you have at reserve?

MR. BRUCE: But the one and a quarter per cent. is not paid until death? A.—The system of dividing the surplus, with the Canada Life, has been by an addition to the sum assured of 2½ per cent. It has been as high as 2 5-8ths and that is $26.25 per thousand per year. Now all policies no matter what the age was, got the same amount of bonus addition, but if I wanted to surrender my $25, or $26 as the case may be, for its cash value, the amount of cash value I would get for it would depend upon my age. I would get a much less cash value if I was 25 than I would if I was 55, because that $25 bonus is a promise to pay to me upon the maturity of the policy, and if I am 25 years old it is presumably not due for a number of years.

MR. SHEPLEY: It gets more valuable as you approach the date when it falls in? A.—Yes sir.

Q.—What I had in mind was this, you were speaking of earning 2½ per cent.? A.—Yes, that is the declared profits.

Q.—2½ per cent. upon what? A.—Upon the sum assured. For instance if you insured your life for $10,000 you would get $250 a year added to your policy, if it were upon a 2½ per cent. basis. Now we had been paying that for several quinquennial periods. Upon one occasion it went as high as 2 5-8ths or $26.25 on a policy for $1,000. Now I say that in arriving at the minimum rate we said we have paid these rates, 2 5-8ths, 2½ and 2, we think it safe to assume that we will be able to continue at least one-half that amount or 1¼ per cent.

Q.—I quite understand that. What I was speaking of was this; you have certain moneys, the result of your operations, which you keep invested

and upon which you are earning a rate of interest? A.—Yes sir.

Q.—Now that rate of interest is upon the funds you have invested and not upon the face of the policy at all? A.—Exactly.

Q.—In order to illustrate what you have said about the minimum policy, you must produce a sum of money which will be equivalent to one and one-quarter per cent. upon the face of the policies. Is that it?

MR. BRUCE: It is not altogether the interest; there are other sources. A.—Yes, it does not depend altogether, the dividend paying power, or profit paying power, upon the rate of interest, but I instanced that because that is a most important feature. The interest earnings of our company now are, I think, about one and one-quarter million dollars a year.

MR. SHEPLEY: Let me not call it interest then, so that I can have the thing, whatever its name is. The moneys you have available for distribution by way of surplus, for distribution among policyholders, must be of such an amount that they will be one and one-quarter per cent. upon the face of the policies? A.—That the divisible surplus would be one and one-quarter per cent., yes.

MR. BRUCE: No, so that the present value of it would pay $1\frac{1}{4}$ per cent. at maturity? A.—Yes, that is it. Perhaps I could make it more intelligible by giving you the amount of money that we had at each of our quinquennial periods and the amount we set aside for the purpose of strengthening our reserves and show you the balance we had after that.

MR. SHEPLEY: That is just what I was going to ask you to have done. A.—We can do that without any difficulty. We can go back to the time we commenced to change the reserves and show how much was taken out of the surplus each year for that purpose right down to the time when it was completed at the end of 1894.

(Adjourned to Monday the 4th day of June at 10.30 a.m.)

THIRTY-FOURTH DAY.

MORNING SESSION.

Toronto, Monday, June 4th, 1906.

Examination of Hon. Senator Cox, Continued.

Q.—On Friday we were speaking with regard to the speech which you made at the general meeting of this year, the 59th annual meeting? A.—May I be permitted to put in a statement at first to correct a misapprehension that arose with reference to the over-draft in connection with the loan of $500,000 to the Dominion Securities Corporation. In looking into the matter—I was surprised at the time that an overdraft of that kind should have been created for the purpose, but upon investigation I find that there was a mistake as to that, such was not the case, and if you will permit me I will read the statement prepared by the Treasurer: "Mention has been made that in order to make the above loan an overdraft in the company's accounts was created by reason of making the loan—that result having been arrived at by the auditor, taking the difference between the credit bank balances at the 31st January, 1902, and the debit balances at the 28th February, 1902. The facts are that several weeks prior to February the company had engaged to purchase various blocks of securities, subject to their validity being approved by the company's solicitor.

It could not be known when the solicitor would be able to report on the same, and in view of the very large income of the company in that month (the actual income of the Investment Department having been $864,644) the Treasurer negotiated for the loan on coal stock, anticipating, as was the fact that $350,000 of the amount would be advanced out of a loan on bonds maturing and paid on the 14th February.

The permanent investments made in that month were as follows:—

Dominion Rolling Stock Bonds	$210,270 00
Victoria, B.C., Debentures	9,000 00
Sault Ste. Marie Debentures	54,000 00
Edmonton Debentures	6,569 00
Toronto Railway Bonds...	25,750 00
Hamilton Street Railway Bonds	25,750 00
Bay of Quinte Railway Bonds	146,250 00
Niagara, St. Catharines & Toronto Ry. Bonds	25,000 00
Mount Forest Debentures	11,820 00
Dundalk Debentures	4,657 00
Total	$519,066 00

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

None of these securities had been paid for at the time the Coal loan was negotiated, and had that loan not been made, the company would have had a large amount of funds on hand uninvested, as no other securities were ready for delivery, because it appears that in March investments to the extent of only $24,000 were ready to be completed.

"Total investments in the months of January, February and March of 1902 amount to $1,514,648.31 against which the income of the Investment Department was $1,334,399.52, and bringing forward its cash on hand at 31st December, 1901, of $147,897.76 the Department had available funds of $1,482,297.28.

"The Insurance Department net overdraft on February 28th, 1902, was $11,576.59, and on the 31st March, 1902, was $21,407.03." I just desired to make that statement so as to show that there was not a large overdraft created by the transaction that I was much surprised to hear should have been the case, because our Investment Committee are composed of very careful men, and I was rather surprised that they made that overdraft.

Q.—I suppose the fact still remains that if you had not make this call loan there would not have been the overdraft? A.—The overdraft was for a very limited time, and there would have been a very large—

Q.—As I understand the statement, and I will get the report of our Accountant upon this before leaving it finally—but as it strikes me now the position would be this: You had provided investments by way of purchase but had not actually paid out the money? A.—Yes.

Q.—If you had paid out those moneys you would have been so far as your bank accounts were concerned just where you were in fact with the call loan made? A.—We would have had a very considerable amount uninvested for this time.

Q.—You would not have had a considerable amount uninvested if you had actually paid out this $519,000 and had got the permanent investments? A.—I think the Accountant will upon examination of the accounts see that my statement is correct, and if you will allow the treasurer and the Accountant to satisfy themselves on these figures then I will answer any further questions.

Q.—Let us see if we can agree with this so far, because it seems to me there is an underlying principle which we can get at without the assistance of the accountant; You had engaged to purchase debentures which would have taken $519,000 of your funds, those debentures you had not paid for, although you had engaged to take them? A.—Will you allow the treasurer sitting there to answer the question?

Q.—Yes.

MR. WATT: We did not know when the securities would be delivered, we had no means of telling that they would come in in the month of February.

Q.—You say none of these securities had been paid for at the time the Coal loan was negotiated, and had that loan not been made the company would have had a large amount of funds on hand uninvested?

MR. WATT: Quite true, $300,000 uninvested.

Q.—If you had not made the call loan, my question is, but had in fact gone and expended these moneys in the purchase of the permanent investment your bank account would have been overdrawn just the same as it was overdrawn by the coal transaction?

MR. WATT: No.

WITNESS: May I answer the question that you asked me with reference to my own holdings of Dominion Coal?

MR. SHEPLEY: I have that in a somewhat different form, but I will take your statement first, but that perhaps won't be final because I am going to inquire into the transactions of the companies in which you were interested.

MR. NESBITT: It is all contained in that.

MR. SHEPLEY: I would rather follow it out according to the brief I have, otherwise it would probably only result in my having in the end to delay; I would rather take that up at a later period. There would be no reason why you should not assist yourself by that statement when we come to that, but I prefer taking that up in my own way? A.—To remember all the figures of the different companies with which I am connected would be difficult, and this is a comprehensive statement.

Q.—I shall not have any objection to that going in, but I prefer taking up the transaction in my own way if it is all the same to you.

Q.—We dealt with the question of the minimum policy on Friday, and we had just completed that when the Commission rose. The next subject you take up in your address is the question of the investments of the company, and there you laid upon the table a printed list showing in detail the investments of the company, aggregating over thirty millions of dollars. Then you went on to answer a question which you say had been asked by one of the policyholders as to your purchasing securities from the Dominion Securities Corporation, of which you were also President; that you have answered here: "I have no hesitation whatever in saying that we do." You say, Where the security and price is satisfactory, the fact that you are a shareholder and director in both companies does not prevent the treasurer from submitting the transaction to the Investment Committee, and if approved by them, carrying it through. We have had a list of the transactions. Then you come to deal with the question of the expense ratio, and I want to ask a question or two about that, just because I am dealing with the subject now in your speech, and I want to lay a foundation for further questioning about it later on. There had no doubt been a very large increase in the expense ratio especially in relation to new business? A.—Yes; there had been a large increase in that business.

Q.—When you commenced your agency for the company the commissions were 10 per cent. and 2½ on renewals?? A.—7½.

Q.—2½ per cent. I thought you said when you commenced? A.—No sir.

Q.—It had risen, as you have told me, in 1887? A.—7½ when I commenced the general agency; 5 per cent. is the local agent's commission.

Q.—The general agent retained 2½ per cent.? A.—To make it clear, the renewal commission to the local agent is 5 per cent., and the renewal commission to a general agent is 7½ per cent., out of which he pays the local agent 5 per cent.

Q.—In the year 1905 the commissions had risen, speaking roundly, to what? A.—You are meaning now the general agents' commissions.

Q.—Yes? A.—We have a printed form which we will put in of all the branches, I do not remember them.

Q.—Cannot you say approximately, as you did in the other case, that they graded about fifty, that was in 1887? A.—I think that would be correct, but there are different rates of commission on different plans of insurance.

Q.—At all events what was the highest commission you were paying? A.—On the Canadian side I think 65.

Q.—On new business, and 7½ per cent. on renewals? A.—Yes, our renewals to general agents, as a rule.

Q.—Out of which the general agent remunerated the local agents? A.—Yes, and paid the travelling expenses and so forth of their branches. The actuary reminds me that 2½ per cent. is the commission we get on renewals in Toronto, perhaps that was the statement in which I used 2½.

Q.—Or perhaps the idea I had was from the fact that you, as general agent, retained 2½ per cent. of the 7½, in respect of local business paying 5 per cent. to the local agent? A.—Yes.

Q.—What are the reasons for this great growth in the commissions? A.—That is the result with all the companies, and it results largely from the keen competition, and to a very considerable extent from the rebating I think that takes place with most companies.

Q.—Was the large commission introtroduced into Canada by American campanies in the first instance? A.—I would not like to say that, I think the competition was going on very keenly amongst a large number of new Canadian companies, and amongst foreign companies—the English companies I think perhaps pay higher commissions than any others; I think I am right in saying that, I would not be sure, but that is my judgment.

Q.—Would it be within a reasonable account of what took place to say that when the large American Companies invaded the Canadian territory with, I don't mean to say with the system of insurance, but with the intention to enormously increase their business year by year, would it be proper to say that at that time the rates of commission began to go up? A.—I think that would be quite correct to say.

Q.—Then would it be correct to say that the Canada Life was the first company to endeavor to meet American competition in the Canadian field upon its own ground, the ground of increased expense? A.—I don't think it would be correct to say that.

Q.—How did your company compare

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

in magnitude of business with other Canadian Companies at the time that this invasion took place—it is much the older company, much the larger? A.—But there are other younger companies that are doing, some of them a larger business than the Canada Life; perhaps the Sun Life is doing a larger business than the Canada Life, I think there are three or four companies doing about the same amount of business in Canada.

Q.—Would it be right to say that the Canada Life is at least as active as any other Canadian Company in meeting this American invasion? A.—I think it would be correct perhaps to say that, I think it would.

Q.—Was the method that was adopted by the Canada Life to make a bid for the large increasing annual business ——— A.—I do not think they were specially doing that, they were keeping up their business as well as they could, along what they believed to be conservative lines, and as conservative as they could be with the competition with which we were contending.

Q.—You have I think answered the question in the last part of it, having regard to the competition you were meeting, your policy was to meet that by yourselves writing very large quantities of new business yearly? A.—What time are you speaking of?

Q.—I am speaking about the time when the New York Life and the Equitable came into this country to do large increased volumes of insurance? A.—When the American companies first came into this country I would not be either on the Board of Directors or in the management of the Company, but I would know in a general way, I could give you information in a general way as to what the policy of the company was then but at that time I was not a very prominent official.

Q.—Give me that in the first place in a general way, because that is not a period of which I am speaking, but I will take that first? A.—We have, as you are aware, had competition from American Companies almost back from the origin of the Canada Life. The Aetna Life is one of the oldest companies doing business in Canada, and some of the English and Scotch companies have been doing business for many years in Canada. I should think it would be in the eighties when the keen competition would commence or the nineties at any rate.

Q.—Was there in the latter half of the nineties an increased energy in respect of new business on the part of certain American Companies? A.—I think it would be correct to say that, but they have been very aggressive always.

Q.—Was it in the later nineties that the rates of commission commenced to go up and the practice of rebating became more marked? A.—I should think it would extend back prior to that.

Q.—Earlier than that? A.—Yes.

Q.—How early would you say? A.—In the eighties.

Q.—In the latter half of that decade? A.—No, I had better stick to the nineties I think. I have not refreshed my memory on these things, but I could give you the information if I had the opportunity of looking over the figures.

Q.—How did the increased competition in respect of new business, upon what hypothesis or theory did that aggravate the practice of rebating? A.—Then it would be absolutely necessary, if you wanted to retain your organization to pay the rates that other companies would pay them, that is where it affected all companies, just as soon as an agent would be offered a higher commission either by a new company starting or by the American companies, that were so aggressive and pushing their business we would have either to lose that man or to pay the increased commission, and so soon as you did that, commenced to do it with one agent you would actually have to do it with all of them, because it would be an injustice to keep one man on one commission and another on another, where they were all on an equal footing in other respects, so that the rate would go up all over the field without the company being able to control it at all unless they were prepared to disorganize their staff and let their business go to competitors.

Q.—With respect to rebates I can see that the result of paying the larger commissions to the agents would be the agents would have a larger margin for making rebates? A.—Exactly.

Q.—Give me your view as to whether or not the practice of rebates originated in this country or in the United States? A.—I think it is all over more or less. If, as I used to get ten per cent. commission, there

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

was not much chance to rebate, but if he gets 50 per cent. he can give 25 and have a good commission left. I think the rebating commenced with the higher commissions.

Q.—What is your personal view as to the question of rebating? A.—I think it is wrong, I think it is practiced by all the companies.

Q.—You think it is very general? A.—I think it is very general.

Q.—You think it is very general in your company? A.—I do not know that our company is any different from any other company in that respect. Of course we do not know of the rebating, as a rule.

Q.—All you know is that rebating is very general? A.—Yes.

Q.—You suppose your agents to be addicted to the practice like other agents, and you know you are paying them commissions out of which they can afford to make rebates in competition? A.—Yes, we would have to do that or stop business as the law is now. I think the law should be amended. I think there should be a very strict law that would punish the company who permitted, the agent who granted it, and the assured who accepted it.

Q.—You would go that length, you would punish everybody concerned? A.—Yes, and it will be the only way to stop it.

Q.—I suppose it could be stopped by an agreement between the companies themselves, carried out in good faith? A.—If carried out in good faith, but I do not think it would be.

Q.—With all your predilections for the life insurance business you do not think that agreement would be carried out in good faith by the life insurance companies? A.—I do not think it would be carried out in good faith by even a band of solicitors or barristers, I don't really think it would.

Q.—That is perhaps not placing them upon as high ground? A.—I want to place the life insurance men as high as any others in the country.

Q.—You think that would be a method of putting a stop to it? A.—Yes, it would be very difficult to carry out unless the law was very rigid.

Q.—Did you yourself when general agent indulge in rebates? A.—Well, if I got an opportunity of taking a good big policy on a man's life, and could secure it by giving him something off the premium I did it.

Q.—Was that a general practice, or was it in exceptional cases? A.—In exceptional cases; the agent never gives a rebate if he can help it.

Q.—But if there are two agents after the same man, and they get bidding for the business, then the rebate is almost inevitable? A.—Yes, they just vie with each other to see which can give the most, and that is why I say it will be difficult to stop it unless a law is enacted that will really make it penal.

Q.—Supposing all the insurance companies in business were to agree upon a schedule of commissions out of which it would not be profitable to make rebates, would not that be pretty effective? A.—I think it would be difficult to enforce the law, to get that agreement to stand; some new company would come in that was not a party to it.

Q.—I am assuming that all the companies engaged in the business were to agree together and to carry it out, that of course would be effective? A.—It would be effective, but the difficulty would be that new companies would come in that would not be a party to that agreement, they would refuse to be a party to the agreement; they would say, Here is an opportunity to get business—take for instance the fire insurance companies where all the leading companies are bound by a tariff that they have adopted; new companies are continually coming in and refusing to be bound by the agreement, and I think you would have the same difficulty in life insurance.

Q.—Speaking about agreement, did your company ever enter into any agreement upon the subject of rebates? A.—I don't remember whether we did or not, I have no recollection of anything.

Q.—I see that authority was given, not so very long ago to the president and secretary to execute an agreement between the Company and the Commonwealth of Pennsylvania, upon the subject of rebates. Do you remember about that? A.—What is the date of that?

Q.—The date of the minute is the 22nd of January. A.—Yes, I recall what that is now. That is necessary, in order to do business in the State of Pennsylvania. Our managers and agents know that that is the law and they would be discharged at once if they violated it, to our knowledge. To our knowledge no such violation has been made, and that is what we ought to have in Canada.

34th day, June 4th, 1906.

Q.—That is a subject that is of very great interest. According to the law of Pennsylvania, rebates are unlawful. A.—Yes, sir.

Q.—Is it a law which is enforced in Pennsylvania? A.—We think it is. We know nothing to the contrary. Our officers have very strict instructions to stand by it and we have no idea whatever of any violation.

Q.—What is the method of enforcing the law there, is there a public official who prosecutes? A.—I suppose that would be the case.

Q.—Or charged with the duty of prosecuting? A.—I suppose that would be the case. I am not sure, but I will get that information for you.

Q.—We will get that, Mr. Cox. A.—When you asked me first about the agreement I supposed it was between companies here.

Q.—Does the State require that an agreement similar to this shall be entered into with the State by any insurance company which does business in the State? A.—We would not get our license to do business there unless we did execute that agreement and we have to get our license renewed every year.

Q.—Is the result of the law being on the Statute books and enforced there and carried out by the companies, that the companies are under a lesser rate of commission in that State? A.—I don't think so. I think that we are paying our manager there just the same as we do in the other branches. I think I am correct in that.

Q.—Are local agents paid as much there? A.—I think so.

Q.—Then the rates of commission are maintained in the State of Pennsylvania notwithstanding the existence of the law? A.—Yes.

Q.—How do you account for that? A.—I am not able to.

Q.—Can you account for it in the practice of your own company? A.—That law has been quite recently enacted.

Q.—Mr. Bruce tells me that the law is not a recent law but it is only recently that it has been enforced by calling upon the companies to enter into these agreements. Then the affect of the agreement and the enforcement of the law will not be visible or manifest yet? A.—No, sir.

Q.—What do you say as to the natural result of the rigid enforcement of this law within the limits of the State of Pennsylvania, will the result of it be in the end to lessen commissions,

Canada Life. (Hon. G. A. Cox, Ex'd.)

and make them more reasonable? A.—I should think that would be the result.

Q.—Is there any other State in which there is a similar law, prior, of course, to the legislation in New York, the other day? A.—I don't think there is. I don't recall any other. The actuary reminds me that there is an anti-rebate law in Michigan.

MR. BRUCE: I have a memorandum of the laws of the different States, Mr. Shepley, I do not know whether Mr. Cox ever saw it; I made it for my own information.

MR. SHEPLEY: If you will let him have a copy of it, and let me also have a copy of it, I will be obliged to you. I will run through this agreement because it is interesting to see what the State of Pennsylvania requires. (Reads this agreement.) First there is an agreement that you will not permit the rebates or allow them to be made, and secondly an agreement that you will dismiss anybody who does rebate and not employ him again for three years? A.—Yes, sir.

Q.—That perhaps has not been in force long enough to enable you to draw any conclusions as to its efficacy? A.—No.

Q.—Then have you been a party to any agreement between the companies themselves upon the subject of rebates? A.—I am not aware of any. I do not think we have. When you first asked the question I thought that was the question you were asking. That is the reason I did not refer to the document you have been reading.

JUDGE MACTAVISH: When was the law put in force in Pennsylvania?

MR. SHEPLEY: Mr. Bruce says the law against rebates has been in force but the method of exacting an agreement from each company doing business under the license was adopted only recently.

MR. BRUCE: It has been in force since 1895.

A.—As soon as we were furnished with a copy of the law, we gave instructions to strictly adhere to it.

MR. SHEPLEY: What you say in your speech is: "The field men are not, in many cases, sufficiently well paid, because of the prevailing abuse that has in recent years crept into the business whereby many agents are forced through stress of competition and the importunities of insurers to vie with each other to see who can give the largest rebate." A.—I think that is strictly correct.

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—I understand you do not look forward with anything like a sanguine feeling towards anything but legislation to remedy it? A.—That is my judgment. I may be wrong, but I think it would be very difficult to get it remedied in any other way.

Q.—Rebating is improper from every standpoint, is it not, the standpoint of all parties concerned in it? A.—I don't think it affects any person but the agent who loses his commission by giving it away, and the company that is obliged to pay a higher rate of commission which will permit that man to do it and live.

Q.—I put the question to you from the standpoint of the insured themselves; is it right that two men should buy their insurance from the same company upon different terms? A.—No, I don't think it is, and that is the evil of the rebate.

Q.—Then you say, "in respect to our own expense ratio it is to a large extent the outcome of a well considered policy that the directors deliberately entered upon when they decided to extend our business to the United Kingdom and to extend it to the United States." What are you referring to there? A.—In starting business in a new field, it is very much like starting a new company and your business must necessarily be much more expensive at the outset.

Q.—In other words you have to work up the business in the new territory before you can have a proper ratio of expense to income? A.—Yes, sir, it takes a good while to get your renewal income up to a point where your agent has anything to live on but a salary. You have to pay salaries at first, and incur office expenses and travelling expenses, and other charges of that kind, which you have no income to meet.

Q.—Is there this about new business which is carried on or which is solicited at high pressure, anything to get a risk insured, that it is not likely to be so persistent as a smaller business which is not the result of the high pressure? A.—The higher the pressure the more business you will get.

Q.—But the higher the pressure the less persistent the business, is not that a fair way to put it? A.—Yes, I think that is correct.

Q.—With respect to business which does not persist, the expense ratio is not overcome, you do not equalize by the recurrence of succeeding premiums, you do not bring matters into a state of equilibrium again? A.—I don't think I have quite followed the question

Q.—You write a new policy, so far as that policy is concerned, at a loss? A.—Yes, the first year's cost of obtaining the business is more than will enable the company to pay that cost and to put up the reserve, and the result is that there is a substantial deficiency on the new business.

Q.—Then in order to overcome that deficiency and to make the writing of the insurance a source of profit to the company, there must be persistence, at all events beyond the first year's premium? A.—Yes.

Q.—And I think you go with me to this extent, that where the business is solicited at high pressure, it is less likely to be persistent? A.—Yes, that is so.

Q.—Would it not in your view be possible for one company without regard to the competition that surrounds it, to do away with the high pressure and write normal business, more likely to be persistent, and would not that be a more profitable thing for the company that would adopt that method? A.—Well, that is a matter of opinion. My own judgment is that any company to be ultimately and permanently successful, must pursue a vigorous policy of adding to their new business. That is my personal judgment. As I said before, it is a question upon which there can be an honest difference of opinion. The business of the Canada Life has been increased from about 4 million dollars a year say, in 1899, to 12 millions last year. As I say in my Annual Report, that policy was adopted after due consideraton and with the idea that it was the right policy to pursue.

Q.—I do not think, Mr. Cox, that your answer quite meets the question. I am not comparing a stagnant policy with a vigorous and aggressive policy. I am comparing a policy which is conservative in respect of the persistence of the business it acquires with the high pressure policy which secures a risk at all hazards? A.—Well, if I was not answering it correctly at first I did not get the question right. Now just what is, what you call, going to an extreme in high pressure, is the point that I would like to get at, to answer that question. That is the reason I used the illustration of our

own company increasing our own business from four to twelve million. Now I consider that a conservative policy. If I had attempted to raise it to 25 or 30 millions, in place of 12 millions, I would have felt that I was going to an extreme, but in increasing it during 5 years gradually from 4 millions a year to 12 millions a year, I think that we were pursuing a moderately conservative policy and I have seen no reason to change my opinion as to that. Now if we had stopped at 4 million dollars a year I would think that we were not—

Q.—Not living up to your opportunities? A.—Not living up to our opportunities. If we had gone to 30 or 40 millions a year, I would consider that we were exceeding the lines of prudence, but in going to 12 millions I thought we were doing what was right and proper. But that is a question on which there may be a difference of opinion. One man might say, you should have done 5 millions and kept there, and another might say, you should have done 4 millions instead of 12.

Q.—Supposing it is known by experience that not necessarily four or five millions, but that volume of business which is normally to be expected from the increase in the insuring body and not to be abnormally increased by undue competition and forcing of insurance upon people, could that mean be adhered to? A.—If we were doing 4 million dollars, we would have to have the same organization and meet the same competition in rates that we have now, doing 12 millions.

Q.—You would meet the same competition in rates, but my point is that you secure a more persistent and therefore a more profitable business? A.—If we did 4 million dollars a year our percentage of lapses would be just as great as if we did 12 millions.

Q.—Then what I understand you to say is that you consider your increase normal having regard to insurance conditions? A.—That is my judgment, yes. You have to keep your staff. Take, for instance, as an illustration, the city of Ottawa. We have got to pay our agent there and keep our office there and when we do that, the more business we can get the better, and the cheaper it is, because the rents and other charges are spread over the whole thing. If, for the purpose of reducing expenses, we dispensed with that branch and closed it, that would be a mistake. Now the extension of our business to the United Kingdom gave us an additional number of points that ought to be as good as the city of Ottawa, but it will take us a good while before they do get to that point.

Q.—Let me take the subject from a little different standpoint. If you write 12 millions of insurance in 1905 and none of those people pay you a second year's premium, it would have been better not to write that business? A.—If that was the case, but that would not be the case.

Q.—I am not saying it is; I want to see if there is a mean somewhere. If on the other hand you get 12 millions of insurance and all of it persistent, then that would be an ideal condition? A.—Yes.

Q.—Now is there somewhere between as to which you can upon the law of average draw a line and say that is an increase which is due to normal conditions and anything above that would be due to abnormal pressure brought to bear upon people who do not want to insure? A.—I don't think that is the case, because the extension of business is the increasing of the staff. All the men that you have, if they are good men, whether you have 10 men or 100 men, they all pass through very much the same experience, very much the same competition and under very much the same pressure. It is the extending; our expense ratio has increased by the extension of our business to new fields in which the business is more expensive at first because of the fact that there is no renewable commission at all to fall back upon and the men are not able to do the same amount of business in a new field that they would in a field where they were well acquainted and where the reputation of the company was already known and its business already established. It resolves itself I think, into a question of policy as to whether we were right in going out of Canada to do business.

Q.—That is as to whether you were embarking on competition in a new field on fairly advantageous terms? A.—Yes, we would be and we are at a disadvantage to start with, and during that period our business is more expensive, but I am sanguine enough to hope that in a very few years we will be doing as much business in the United Kingdom as any of the home companies. We are getting very close to that now.

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—Is it true that in Great Britain there is a great body of what I would call natural insurance; insurance which is voluntary and necessary, under the economic conditions there prevailing? A.—I don't think that is the case in any country. The system of doing it in England is different to some extent from here. The solicitors in England, what do they call them? A.—Writers?

Q.—In Scotland they call them writers. Do you mean those who solicit business, the agents? A.—I mean that a great deal of the business comes through legal gentlemen in England. A person who has charge of an estate for his client, invests his money, and arranges for his life insurance and all that sort of thing. A very great deal of business comes through the solicitor or writer.

Q.—That I would call voluntary business; nobody has to canvass for it? A.—They don't have to canvass for it but they have to pay for it, one pound per cent. on the sum assured. They get the same commission as the agent does who goes out and solicits it, one pound per cent. on the sum assured. I think it is understood there that everybody who likes—and that is another system of rebating, of course—every person almost can take an application in to a life insurance company and get that commission that is allowed to the man who sends it in. It is largely sent in, as I say, by the solicitor or writer who has charge of the estate of the gentleman whose family is being insured.

Q.—That I would call voluntary business. Is there any other class of business that would fall under the same description, as coming, so to speak, without the efforts of a special staff employed for the purpose of securing insurance? A.—I am not aware of any company, even there, but what have in all the towns and cities of the Kingdom their own offices and their own salaried officers. They call them resident secretaries. These men in turn have solicitors that are in the field soliciting business. I don't think that the business in the United Kingdom is done any cheaper than it is in Canada. There will be exceptions.

Q.—Have you made that a study so that you can speak with authority upon that, because that is not our information? A.—I have made it a study—thought the thing over very carefully—and if you take the amount of business done in Scotland or in England in any of the companies, so far as I know, there may be some that I don't know of, take the amount of new business that they do, as compared with the large accumulation of renewals that they have had, over 70 or 100 years, and I say that the actual cost of their new business is as much as the cost of our Canadian companies.

Q.—You say the ratio is as high? A.—When you speak of the expense ratio, there are a number of things that have to be taken into consideration. For instance, if I may use this illustration. the Canada Life Insurance Company's expense ratio on our premium income is $24.69 and on our total income $18.50.

Q.—That was for 1905? A.—Yes, sir. Now with that 12 millions of new business, if we discontinued doing new business—I am not suggesting that, but that is going to the other extreme to illustrate the point I want to make—if we discontinued doing new business altogether we would cut our expense ratio down to perhaps 6 per cent., possibly 5. That is if we discontinued, and simply collected our renewal premiums, did no new business except what might come in over the counter. I think that would reduce our expense ratio to 6 per cent. at the outside. That would be exceptionally low; lower than any of the English companies; they are not doing that, but they are pretty nearly doing it, because the amount of business that some of these companies do, perhaps 3 or 4 hundred thousand pounds, with a large premium income, and the result is that that business is done by the salaried officers who simply collect the renewals. So you may take an English company and it will show a very low expense ratio because of the very small amount of new business they are doing.

Q.—Your actuary hands me a statement headed "Expense ratio of Canadian Companies." This was prepared, I suppose, from the Government Returns? A.—Yes, I suppose it was.

Q.—From the Blue Book? A.—Yes.

Q.—When you say "general expenses" that means all expenses. 'If you are comparing general expenses with total income, have you got all the elements here? I can understand you comparing a thing called general expenses with total income, but in respect of your net premium income shouldn't you only take a pro-

portion of your general expenses? A.—That is all we should take, yes, sir, because there is the expense of handling 30 millions of money.

Q.—That is perhaps, what is taken here, the total expenses? A.—There are the two columns, the one on premium income and the other on the total.

Q.—If you will let me have this I shall be glad to put it in subject to that criticism? A.—If you will let me have it in the meantime. (Exhibit 186.)

Q.—Now again referring to your speech. You take up next the subject of returns to policyholders.

MR. LANGMUIR: Before you pass to that I would like to ask this question. Does the high standing of an old established company like yours, with a large business on hand, not count in its favor in getting new business as against a new company and perhaps weaker company, in other words have you to compete in paying big commissions and allowing rebates in the same way as a new and weaker company? A.—If a person sits down deliberately, having decided to insure his life, to make an investigation for himself and send his application in to the company, we think that we would have an advantage in that respect; but there are not very many persons who do that. It is surprising how few people send in their own applications. The business is secured almost entirely by personal solicitation, and a good agent representing a poor company will get a good deal more business than a poor agent representing a good company.

MR. SHEPLEY: Business conditions in insurance should not be abnormal from every standpoint; as the Commissioner has just said, the fact that you have been a long time in business and that you have enormous assets, have a large volume of insurance in force and are prospering, ought to count for something? A.—It does count; I stated that, I think, fairly; but I say it is surprising how few people insure unsolicited; of the very small percentage who do insure unsolicited I think we get our full proportion and perhaps more.

Q.—In your own experience as an agent, take the period before the high commissions, what proportion of one million dollars of insurance would be voluntary in that sense? A.—You would be surprised how very small. I don't think in my whole experience I have had 50 people come to me and propose to insure their lives. You would be surprised at the very low percentage.

Q.—If you had not the agents go ing about and offering rebates, you would get a good many people voluntarily who are now got in that way? A.—I am afraid somebody else would get them if we had not the men going about for them. They do get them as it is.

Q.—You do not want us to understand that it is not a great and legitimate advantage that you have, by reason of your high standing? A.—Oh yes, I think that. I think our agents get their business easier and should get it easier, and one very substantial source from which we get business is our old policyholders. We get a great deal of business from our old policyholders; people who have been insured in the company and are satisfied with it and if they want increased insurance they take it with our company, but even in cases of that kind it is very seldom that they decide to take additional insurance and send for it. If an agent calls upon them they are more easily induced to insure, because they feel that they want more insurance and they are satisfied with the company and they take it, but it is really very surprising how few people of their own motion send in their application for life insurance. There are sometimes cases where they are establishing credit with a bank or providing for some contingency in life and insurances are given in that connection without being solicited, but they generally go to the lawyer who is doing the man's business. He is drawing a document in which a life insurance policy is a necessity; if he says, you had better go to the Confederation Life, or the Canada Life or the Sun Life as the case may be, that is where the man goes. There is a certain percentage of business of that kind, but as compared with the total amount of business that is being transacted, it is very small.

Q.—There is a good deal of business which comes upon your books and does not persist, which ought never to come there at all? A.—There is a fair amount of that. I think that we can give you not only our own percentage of lapses but that of all other companies and you will see from that that we have a very favorable comparison.

Q.—Yours does, I know, compare

favorleny in that respect, but even with your company there must be a good many people who are dragooned into insuring, get a rebate for a year and then do not come back, or else go somewhere else and get another rebate for another year? A.—We do not think that is the case to any extent in our company. We have what we regard as very responsible and good men representing our company all through the country. In many of our principal agencies we have had the same man representing us for years.

Q.—But they are men who desire to pile up the volume of insurance that comes from their branch? A.—They do, but I don't think they go beyond —

Q.—And they want to pile it up so badly that they will give considerable rebates to do it. That is, perhaps, another evil in the system of rebating, that it involves a certain amount of temporary insurance, which probably never ought to have been written at all, having regard to the means of the person? A.—That is true, but as I said before, while that is largely the result of the rebating—I am not defending the rebating at all—but I say, in my opinion, it can only be stopped along the lines that have been adopted, say by the State of Pennsylvania and by other States in that way. That is my judgment.

Q.—In your system you distribute profits every five years? A.—Every five years.

Q.—Do you have then groups commencing with each year and a distribution for each group, five, ten or fifteen years from the date of insurance, or do you take five year periods and bring all policies into uniformity in that respect at the end? A.—Will you allow the actuary to answer that question?

Q.—I know already how it is, but I would like to get it upon the notes in the best possible fashion? A.—That is the reason I am asking the actuary to do it.

Q.—I do not want it in detail. Supposing a man insures in 1901, when would he get his first profits, on the quinquennial system? A.—In 1906.

Q.—Going back to your former system, when was that discontinued? A.—About 1900.

Q.—Supposing a man insured in 1891? A.—He would get his profits in 1894. That is he would get 3 years' profits. I will explain that. Prior to 1900 we had regular fixed quinquennial periods, say 1890, 1895, 1900, 1905 and so on. Now, if a man insured in 1887 he would get 3 years' profits in 1890, and then he would get 5 years' profits in 1895, 5 years more in 1900; now in 1900 we changed the system to this extent, to give each policy its own quinquennial period. At that time we had a division of profits every 5 years and one man might get a full 5 years' profits, another 4 years, another 3, another 2 and another 1; but we changed so that a man would have to be 5 years insured before he would get any profit; when his 5 years were up he got his 5 years' profits. That change results in there being a division of profits every year. A man who insures in 1900 gets 5 years' profits in 1905; a man who insures in 1901 gets 5 years' profits in 1906 and so on.

Q.—I wanted to get that upon the notes because it was different from any other company? A.—It makes no difference to the policyholder, except that he does not get any profits until he has been 5 years insured.

Q.—That is the true quinquennial method? A.—Yes.

Q.—And in that way you can, I suppose, keep an account with every policy? A.—Yes sir.

Q.—That is, I suppose, the proper method of doing it? A.—Yes sir.

Q.—Until 1865 your company divided the profits annually? A.—That is before my time.

Q.—That is what I understand, that the profits were divided annually up to 1865? A.—Yes sir.

Q.—Then from 1865 to 1900 it was in the way you have described that is bringing them all to a common quinquennial era? A.—Yes, and there was no change in the policies issued prior to that time; they got the profits at the same period that they would have got them had the change not been made; it only affected the date of distribution of the new insurers who came in from and after that date.

Q.—In other words you got a large class of insurance prior to 1900 which has brought itself to a fixed quinquennial period? A.—Yes.

Q.—And goes by quinquennial period? A.—Yes.

Q.—In respect to the other, each policy has its own quinquennial period? A.—And that makes a distribution every year.

Q.—Then your speech went on to say: "From the directors' report you

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

will see that we have during the past year, paid out in profits to policyholders or applied to purchase bonus additions to policyholders, nearly $1,200,000." Is the sum you applied to purchase bonus additions the same sum you would pay in cash? A.—The policyholder who gets a bonus addition can, if he likes, take it in cash or leave it as a bonus addition to his policy.

Q.—The bonus addition is what the cash dividend would pay for? A.—Yes. Each man would get a bonus addition to his policy if he did not express any opinion in his application as to how he would have it. Now, notwithstanding it went as a bonus it would be optional with the man to receive its value in cash or to receive its value in the reduction of his premium spread over a period of 5 years or in what we call a permanent reduction, spread over the balance of his life.

Q.—When you say nearly $1,200,000 are you giving a figure, which, if they had all taken cash, would have been paid out? A.—Yes sir.

Q.—You are not giving a figure which is composed partly of what was paid out in cash and partly of the bonus additions which that cash purchased? A.—No sir, that is just the cash value which the policyholders were entitled to at the time in whatever way they took it. If they took a bonus addition to the sum assured, they would get a larger amount than the cash payment. If they were entitled say to $30 in cash they would get as much bonus as $30 would buy in paid up insurance.

Q.—That is paid up insurance at that age? A.—Yes.

Q,—Then the figures you give here in respect of the premiums from policyholders during the whole history of the company, $52,630,923; are those the gross premiums? A.—Yes sir.

Q.—Then you have paid to policyholders and beneficiaries $30,911,309, that is in pursuance of the contract; policies that you have been called upon to pay, that have matured or been surrendered? A.—Yes, that should be $30,000,000; I think you said 30,000.

Q.—$30,911,309. Then the other item credited to policyholders $29,329,365, that is in respect of what? A.—The money that we have in our vaults. That is the reserve in other words. That is what we still have in hand to the credit of our policyholders.

Q.—Then "Paid Policyholders and beneficiaries." Does that include what you have paid by way of profits? A.—It includes everything. Yes sir.

Q.—It includes policies that have matured, surrender values that have been paid when the policies have been surrendered, and it includes what are called dividends or profits? A.—Yes sir.

Q.—And, I ask you again, does that include just cash values of profits or bonus additions? A.—Cash values. The bonus additions would be paid if the policy matured, because when the bonus addition is the same as the policy it has to be paid at maturity if it is an endowment policy or at death if it is an ordinary policy, it becomes a part of the policy and is paid the same way.

Q.—Then you take out of the sum what has been allotted as profits to policyholders. The sentence there is a little obscure—if you will permit me to say so—and I want to get that plain. You say here: "Further, of the amount received from premiums, while the larger part is for with-profit policies, yet a considerable portion is also in connection with non-participating and annuity policies, and it may interest you to know that we have paid or allotted to policyholders over eleven millions or over 20 per cent. of all premiums both with and without profits?" A.—Well that would be included in these figures.

Q.—That eleven millions is what you have paid or allotted in profits to participating policyholders of course? A.—Yes sir.

Q.—And that does not include any profits arising in respect of non-participating policyholders. Then the fifty-two millions given above as the gross premiums from policyholders include, I understand from this, non-participating as well as participating policies? A.—Yes sir.

Q.—That is what I did not think the language made quite clear? A.—The point with reference to the eleven million dollars is to show that over 20 per cent. of all premiums, both with and without profits, received from policyholders, exclusive of a large amount transferred at different periods to strengthen the policyholders' reserves.

Q.—That is after excluding the amount we were speaking of the other day as being set apart when the new

34th day, June 4th, 1906.

law came into force? A.—Yes sir. No, that would be included.

Q.—I mean, what is allotted in profits to policyholders is exclusive of that? A.—Oh yes, it states that there.

Q.—Then you speak of the rate of interest and say that it was easier to obtain 6½ per cent. per annum during the earlier history of the company than it is now, on equally good security, to earn 4½. "If you compute the difference of 2 per cent. on our present assets you will see the loss in interest amounts to $600,000 per annum, or three millions for each quinquennial period of distribution." A.—I think that will be borne out by the experience of all institutions making large investments.

Q.—I have been looking over the evidence and I do not think we have taken down—although perhaps it is inferentially shown—the exact date of your election to the presidency. That seems to have been on the 2nd of January, 1900? A.—In 1900, yes sir.

Q.—Between the time you had gone on the Board and that time, you had retained the managership in the way you have told us, with your son, of the Eastern Ontario Branch? A.—Yes sir.

Q.—Then with regard to the proceedings connected with the removal of the head office from Hamilton to Toronto. Would it be right to say that in advance, all those members of the Board whose business interests were identified with Hamilton were opposed, while your view was in favor of the removal to Toronto, and that you took the lead in that movement? A.—I think it would be right to say that. I don't know that I took the lead, but it would be quite correct to say that I was in favor of the removal to Toronto. Whether the matter had been discussed before or not I don't remember.

Q.—At the annual meeting of the shareholders on the 14th of February, 1899, this minute appears: "The President read a communication from Mr. Samuel Barker requesting that a deputation of policyholders may be heard before proceeding to do business before the shareholders' meeting." Or, "to the business" I think it is; a mistake in the typewriting. The President, that would be Mr. Ramsay in '99? A.—Yes sir.

Q.—"The President suggested that the meeting allow Mr. S. Barker to address the shareholders on behalf of

Canada Life. (Hon. G. A. Cox, Ex'd.)

the policyholders and their interests in the company, and the proposed change of the head office of the Company to Toronto." Then the names of the deputation are given, and it was moved by Mr. Hendrie, and seconded by yourself, that the deputation be heard in the way the President suggested. Then Mr. Barker spoke at some length on the subject referred to. Now what was the purport of Mr. Barker's address to the shareholders'" meeting upon that occasion with respect to the removal of the head office? A.—I don't remember. I did't even remember that there was such a deputation until you reminded me of it. But it would no doubt be in opposition to the removal. He opposed it at the coming session of Parliament. Opposed it very strongly.

Q.—He opposed it at all events at this meeting? Then it must have been known before the meeting was held that the removal of the head office was a matter which was being agitated? A.—It was certainly, that was in '99.

Q.—How long had it been in agitation? A.—Not very long. That was just about the time the removal was made.

MR. BRUCE: In October, 1899? A.—And what is the date of that letter?

MR. SHEPLEY: The 14th of February, '99? A.—That would be about the time the discussion commenced.

Q.—You do not think it commenced before that? There must have been something in the air? A.—It was known at that time.

Q.—Had it been a matter of a few weeks or months or a year or two before '99? A.—I could not remember that. It probably would be a subject of discussion for sometime. It would not be without more or less discussion and agitation.

Q.—You remember that you told me you did not think when you went on the Board in 1892 you yourself had then any idea of agitating the removal of the head office? A.—I don't think I had. I don't remember.

Q.—Cannot you tell me how long it was after that before that idea took possession of your mind? A.—I think it would be just about the time of this deputation or a short time before. My recollection is that the first discussion in the matter arose out of a taxation question, in which the City of Hamil-

ton were imposing a tax upon us that we did not think right. I think that was really the initiation of the movement now that I think of it.

Q.—You think the movement arose from some tax. Can you speak any more in detail? A.—I cannot give you the particulars but I will get that for you. There was some disagreement between—or, I won't say disagreement, but discussion over the taxation. The actuary reminds me that they claimed the right to tax us upon the whole of our premium income, and we felt that it was unfair and we were discussing that and squabbling over that and I think that that was really the first inception of the movement for the removal of the head office to Toronto.

Q.—The City of Hamilton was claiming the right to assess you at Hamilton for the head office in respect of all premium income?

MR. BRUCE: Income on interest and premium.

MR. SHEPLEY: Were you assessable in respect of your premium income somewhere under the law? A.—I think that we got a much better arrangement in Toronto. I think we did; I am not sure about that. You are asking me questions now that I cannot answer without looking them up and refreshing my memory.

Q.—What I want to get at is the ground upon which the removal was put forward and justified? A.—Well, if you want to justify the removal, I don't think there was any question whatever about Toronto being the best place for it.

Q.—Apart from any question of taxation? A.—Apart altogether from any question of taxation.

Q.—That may have been the immediate—I won't say pretext—but the immediate reason for acting then, but as a matter of business policy your idea was that Toronto was the place? A.—Yes, certainly, I have no hesitation whatever. Then, again the small head office building at Hamilton was becoming quite inadequate for our purposes as a head office. Then again Sir George Burton, Mr. Merritt and others of the directors lived in Toronto. We had the whole Board pretty nearly going up from Toronto to Hamilton to attend at the head office. Altogether the arguments were numerous in favour of the removal.

Q.—Was there at that time any understanding or suggestion that Mr. Ramsay should retire, because he did retire in the following year; was that in the air too? A.—I think there was an agreement, which you will be able to refer to, perhaps, a year or two before that, in which Mr. Ramsay asked that an agreement be entered into entitling him to a retiring allowance, and you have: think—or if not we can supply it—the correspondence which originated that movement.

Q.—Then on the same day, the 14th of February, after the annual meeting of the shareholders, the directors met and Mr. Ramsay was re-elected President and Mr. Gates Vice-President? A.—In what year is that?

Q.—This is February 14th, 1899? A.—Yes sir, the annual meeting of 1899.

Q.—At the directors' meeting, held after the annual meeting of the shareholders, it was moved by the Hon. George A. Cox, seconded by Mr. Lash and resolved, "That the President, Vice-President, Messrs. Cox, Walker, Merritt and Lash be and are hereby appointed a committee to consider and report to the board upon the matter of the following motion adopted at the meeting of the shareholders this day; that in the opinion of this meeting it would be in the interests of the Canada Life Insurance Company that its chief place of business should hereafter be in the City of Toronto, and that the board of directors be and they are hereby requested to take such action as may be necessary to carry out the object of this resolution." You remember moving that? A.—I have no doubt that is correct.

Q.—Then at the same meeting, "It was moved by Mr. Walker, seconded by Dr. Hoskin, that there be now established the office of Assistant General Manager of the Canada Life Insurance Company and that Mr. E. W. Cox, one of the present managers of the Eastern Ontario Branch be appointed to the said office at a salary of $6,000 per annum and that Mr. H. C. Cox be appointed as successor in the said management at Toronto." You were still interested in the Toronto business? A.—Yes.

Q.—That means the successor as partner to you? A.—Yes.

Q.—"This organization to take effect from the first April next. After discussion it was concluded that as a notice of motion this matter should stand over for a week." Then you gave notice, seconded by Mr. Flavelle, "that there be now established the

office of Treasurer of the Canada Life, and that Mr. H. B. Walker be appointed to the said office at a salary of $6,000 per annum, this appointment to take effect on 1st April next, which motion was also laid over for a week." Then on the 27th of February the matter came up again in the directors' meeting. An opinion from the late Mr. Christopher Robinson had been obtained—do you remember that—as to the legality of moving to Toronto? A. —Yes, I remember now when you mention it. I had not remembered it.

Q.—Do you remember the purport of the opinion? A.—No, I do not.

Q.—You do not remember whether it was in favour of the removal or against it, as a matter of law? A.—I presume that it must have been in favor of it.

Q.—You remember of course that you had to get legislation in the matter? A.—Yes, we got legislation. Then the opinion perhaps would be that we would have to get legislation. I don't remember that, but I have no doubt these minutes are absolutely correct.

Q.—Then legislation was brought about. First, however, there was a resolution on the same day. "It was moved by Mr. Cox, seconded by Mr. Lash, that in part compliance with the shareholders' resolution of the 14th February, 1899, it is ordered that the duties of the general manager and the office staff under him be in general performed in Toronto and that the books, documents and securities, etc., required in the performance of such duties be transferred to and kept in Toronto, and that a committee consisting of the president, vice-president, Merritt, Cox, Bruce, Walker and Lash be hereby appointed a committee to carry out such arrangements as may be required to give effect to this resolution." In amendment it was moved by Mr. Bruce, seconded by Sir George Burton, "that in view of the action of the Board applying for legislation to offer the policyholders' representation, it is advisable to defer action on the resolution adopted at the shareholders' meeting on the 14th inst." The amendment being voted upon was lost and the original motion was declared carried unanimously. Then a committee was appointed, the same committee, I think, as had been appointed before, to consider and report upon the proposed removal of the chief offices and officers of the company to Toronto. Then on the 6th of March, "Mr. Gates was requested to take the chair while the committee on legislation retired to consider the draft Bill which the company is to promote. The Committee retired for the purpose of doing so, and thereafter upon return of the committee the president resumed the chair and requested Mr. Bruce to read and explain the draft Bill, which being done, it was approved and adopted, and a special general meeting of shareholders for its consideration was ordered to be called for Wednesday, the 29th inst., at 12 o'clock noon. Mr. Gibson, M.P., was requested to take charge of the Bill." According to your recollection was there any difference between the draft and the Bill which afterwards went through? A.—I don't remember that. I could get that information for you.

Q.—You do remember that what may be called a counter-bill was prepared by Mr. A. T. Wood? A.—I remember there was opposition to the Bill in the House, but what amendments were made I am not aware. I don't think there were any important amendments.

MR. BRUCE: I think it went through substantially.

MR. SHEPLEY: I make that out from the papers, that it went through substantially as you had drawn it. Then there were certain negotiations—I do not know that I am interested in going through those in detail —between those who were opposed or wanted modifications of the Bill and those who were promoting the Bill, I mean those interested in the company? A.—I don't remember that. I remember that there was very strong opposition to the Bill on the part of the Hamilton people and on the part of—

Q.—On the part of some of those interestel in the company? A.—Yes, probably the Hamilton people. I think everybody else was largely in favor of the removal.

Q.—I see that at that special meeting of shareholders, Mr. Ramsay moved and Mr. Gates seconded, "that the shareholders of the Canada Life authorize the directors to apply for legislation for authority to give the policyholders representation on the board of directors on the terms of the Bill for that purpose submitted to this meeting, printed copies of which have been in the hands of the shareholders for the past two weeks." The Bill which was in question not only covered the subject of removal of the head office, but also covered what we

34th da~ June 4th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

have already discussed, the giving of of the policyholders a vote in the election of directors? A.—Yes.

MR. BRUCE: Just let me say this; the Bill provided for the policyholders change; that was the main matter; and the change of the head office was made, I remember in Ottawa when everything else went through. It was said they might as well make the change of the head office and that was added. I don't think that was in the original Bill. The motion was, you will remember, not to change the head office but the chief place of business. When the Bill went through it was said, we might just as well make the head office change. These words were put in, "the head office of the company shall be in the City of Toronto."

MR. SHEPLEY: Power was given to the shareholders to pass a general by-law at a general meeting for the purpose of fixing the head office either in the City of Toronto or in such other place in Canada as the by-law might fix. What Mr. Bruce says is probably quite right because I see that the motion made in the shareholders' meeting makes no reference whatever to the other matter? A.—No, that is the reason I could not remember that it had. If there had been a discussion I would likely have remembered it.

Q.—Then returning to the directors' meeting, I see the draft Bill which the company is to promote was read and explained by Mr. Bruce and approved and adopted by the directors, and there is no statement there that the Bill contained anything with regard to the removal of the head office. Do you remember at all whether or not at that time there was any promotion of a Bill or of a clause in this Bill in respect of the removal of the head office? I suppose as a matter of recollection, you do not remember it? A.—I do not, sir, no.

MR. BRUCE: There was nothing in this Bill as to the removal of the head office; it was put in in the committee of the House of Commons, these words.

MR. SHEPLEY: Then I see that on the 18th of April, upon the suggestion of the Hon. Mr. Cox, the company's solicitors were to be requested to "prepare forms of petitions for the signatures of policyholders approving of the company's Bills as to amendment of the company's Charter, the agents to be asked to obtain signatures thereto for presentation to Parliament?" A.—I think that in the meantime the opponents of the Bill were getting petitions from the policyholders. They were in point of fact I know and we joined issue with them of course? A.—We intended to carry the thing through if we could.

Q.—Then on the 1st of May, "upon the suggestion of the Hon. Mr. Cox it was ordered that Mr. Bruce and Mr. Lash represent the company before the Banking and Commerce Committee when the Bills relating to the company are being considered." That may be a misprint. Perhaps it should be "Bill." "That they be instructed not to assent to any amendment of the company's Bill, other than verbal amendments made to carry out its provisions more clearly, and if any amendment not assented to be made, that an adjournment be asked for in order that the decision of the Board thereon may be obtained?" That would be any important change in the Bill, I suppose.

Q.—Then there is a further reference, which is not of importance, at a subsequent meeting on the 6th of May, which I pass over. Then a further reference, which does not seem important on the 15th of May, and then the Bill went before the Banking and Commerce Committee and it was carried. Then as passed the Bill provided "that the annual general meeting of the stockholders and policyholders of the company shall be held at the head office of the company, which shall be in the City of Toronto or in such other place in Canada as is fixed by by-law passed by the shareholders at any annual general meeting or at any special meeting duly called for that purpose, on the last Wednesday in February in each year" and so on. That gave the power to the shareholders, independently of course of the policyholders to change the place of business of the company.

MR. BRUCE: Mr. Shepley, the Statute changed it.

MR. SHEPLEY: The Statute says it shall be either Toronto or such other place in Canada as fixed by by-law.

MR. BRUCE: Well, at Toronto, with power to fix it at some other place.

MR. SHEPLEY: You think the effect of the bill is to do that. Perhaps it is capable of that construction.

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

What I want to know is whether the matter was taken up in the subsequent shareholders' meeting and anything done with regard to it? A.—As to where the head office should be?

Q.—Yes? A.—I don't think so.

Q.—Then that would be in accord with the view Mr. Bruce has just expressed, that the effect of the Statute was to fix the head office at Toronto in the absence of a by-law by the shareholders? A.—That is what we understood.

Q.—And that was put in in committee and that is your authority for the alteration of the head office? A.—Yes sir.

Q.—Then you said you would have for me a statement of the funds devoted to the strengthening of the reserve; funds available for distribution which were devoted to the strengthening of the reserve? A.—In 1890 to 1894 the company passed to the American 4 per cent. valuation basis. The point I wish to emphasize is that we started in 1890 to make the change.

Q.—How does that compare with the Hm.? A.—It is easier. The American 4 is almost the Hm. 4½. Not very much better than the Hm. 4½.

Q.—In 1893, dealing with the investigation made by the Insurance Department that year in respect of the returns of 1892, we found this memorandum from Mr. Blackader, at Ottawa, and this amendment made accordingly in your return. "I am sending the draft of the Canada Life statement. I notice that the company have again put in the reserve on the American experience 4½ per cent. This will necessitate our adding an item as we did two years ago to bring the reserve up to the Hm. 4½ standard. I have therefore added to the liabilities an amount which will bring the reserve up to the Institute of Actuaries Hm. standard, $422,148. That sum is accordingly inserted in addition to the liabilities." That was, I suppose, accepted by the company and that was the provision at that time and that put the reserve on a better footing than 4½ per cent.? A. It brought it back to the Hm. 4½.

Q.—It was better than the American 4½?

MR. SANDERSON: In 1889 the company went to do business in Michigan; the valuation basis there was American 4½, and Mr. Ramsay adopted that valuation basis, which brought out a lower reserve than the Government standard. The Ottawa Department in the returns for 1889 added a sum, about $250,000, to bring the reserve up to what the Government then required, and in subsequent years the Department added sums to bring the American 4½ up to the Ottawa standard and we accepted that each year.

Q.—That was not done every year apparently; you say in 1889 the Government added $250,000 to the reserve in respect of that? A.—(Mr. Sanderson answers until a change is indicated.) Yes.

Q.—Then in 1892, or for 1892, this was done again? A.—Apparently.

Q.—And that would make the reserves good to that time? A.—Yes. Then in 1894 we ourselves adopted the American 4 per cent. standard, which was somewhat better than the Hm. 4½.

Q.—You adopted the American 4 per cent. standard in 1894 as a basis of your reserves? (Mr. Cox answers.) Yes.

Q.—And that is better than the American 4½? How does it compare with the Hm. 4½? A.—It would be very much the same I think. A little stronger. About half way between.

Q.—About half way between what? A.—The Hm. 4½ and 4, the American experience mortality tables.

Q.—What had you been doing with respect to the policies you were writing after this date in 1889? A.—I don't think I understand your question.

Q.—For instance in 1889 the Department called upon you to put yourselves upon the American 4 per cent? A.—Yes.

Q.—You had not in respect of the policies you wrote after 1889 made any difference in the reserves you set apart; you were still setting apart on the American 4½? A.—I was not in charge then; if you will allow the actuary, he will answer that.

Q.—I would rather take it from the actuary. (Mr. Sanderson answers.) A.—As a matter of fact about 1889 the directors foreseeing the fall in the rate of interest decided to look forward to a 4 per cent. rate of interest and set aside in 1889 a sum of $225,000 for that purpose and valued it upon the American 4 per cent. basis.

Q.—Had that anything to do with what the Government did that year? A.—It just about cancelled what the Government did in bringing it back to the Hm. 4½, so that the company was really stronger in point of reserve

34th day, June 4th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

than if they had been on the Hm. 4½ right through.

Q.—Then, in 1894 you were compelled to add that sum to your liabilities, shown in the memorandum we were looking at, $442,128? A.—Yes.

Q.—Did you treat that as reserves from that time on? A.—We accepted that, we allowed the Department to do that, we approved of it and a year later valued upon the American 4 basis which brought the standard then above the Government standard.

Q.—Above the Government 4½? A.—Yes.

Q.—That you say was in 1894? A.—Yes, 31st December, 1894.

Q.—That was in respect of the reserve upon policies issued that you made the change? A.—In respect of the whole business, the old as well as the new.

Q.—How much did that take? A.—I don't know that there was a valuation made on the Hm. 4½ to compare it with. We made the return upon the American 4 per cent. at that time.

Q.—Can you tell me what that added to your reserve? A.—Two years later the regular quinquennial valuation by the Department took place and my recollection is that there was a substantial sum, $600,000, stronger by the American 4 than by the Hm. 4½. That is just my off hand recollection.

Q.—That is you let loose about $600,000 from your reserves by the Departmental valuation? A.—We strengthened our reserves over and above the Ottawa standard by about $600,000.

Q.—Then the Ottawa valuation would have let loose about $600,000 · did you adopt that? A.—We adhered to the American 4.

Q.—That is you had your reserves strengthened beyond the Government requirements by the $600,000? A.—Yes.

Q.—Then was there anything done in later years? A.—During all this period the rate of interest continued to fall as shown by the reports of the company and as shown by Mr. Ramsay in his addresses from year to year, and they concluded that they would have to look forward to a still further strengthening of the reserves and in 1898 Mr. Ramsay set aside a sum of $225,000, I think, looking towards a 3½ per cent. standard. In 1899 on 31st December, under the new management, we set aside $275,000 more and changed the mortality table from the American mortality table to the Actuaries Table at 4 per cent. The reason for that was that in the meantime Michigan had changed from the American to the Actuaries Table and that was the common standard throughout the States, so we adopted the Actuaries Table, with the special reserves of 225 plus 275, making up $500,000, and the change from the American to the Actuaries Table absorbed some $353,000 at that point.

Q.—Of the $500,000? A.—No, as between the American table and the Actuaries table, to pass from one table to the other absorbed some $353,000, which shows how weak the American table is. In addition to that we had the $500,000 special reserves looking towards the Hm. 3½.

Q.—Then practically you have Hm. 4 from that time on with $500,000 set apart to help to bring it down to 3½? A.—Not Hm. It was the actuary 4. The actuaries table is not the Hm. It is otherwise known as the Combined Experience Table.

Q.—Which is the Government table? A.—The Hm. They are not widely different, the Actuaries and the Hm. in point of reserves.

Q.—If there is any difference which will create the larger reserve? A.—I think the Hm. will probably require slightly higher reserves.

Q.—Then may it be said that from 1899 it was not very long until you made the change that we have been talking about, but from that time on you had $500,000 available as a special reserve to assist you in reducing the rate of interest on reserves generally to 3½? A.—Yes.

Q.—Then you have told us how much money you set apart in addition to that in consequence of the anticipated law coming into force, $2,509,000 was it? A.—Not in addition to that.

Q.—That included the whole $500,000? A.—Yes, the whole transaction, from the American 4½.

Q.—You were going to make me, Mr. Cox, if I remember rightly, a little statement showing just what amounts you would have available for distribution and how it was affected by what you did in 1900? A.—When you come to my evidence I can give you the exact valuations.

Q.—Then if you say so, Mr. Cox, I will take that also from the actuary. If you could prepare that statement and let me have it a little in advance it would be so much the better.

MR. COX: Yes sir.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

—Resumed at 2 P.M., June 4th, 1906.

—Examination of Hon. George A. Cox continued:

MR. SHEPLEY: Since we spoke of it the other day the agreement between yourself and Mr. Ames and Mr. Bradshaw with regard to the Imperial Life has been found, and it has been given to me. The agreement is the 2nd January, 1902. That is an agreement which recites that the Central Canada Loan & Savings Company now own or control 5,350 shares of the capital stock of the Imperial with 45 per cent. thereon paid up, and the purchasers, that is Ames and Bradshaw own or control 1,950 shares of the stock with the same amount paid up. Then it recites that the parties deem it in their interests, and those of the said company that they should have an equal holding of shares, and that the arrangement hereinafter contained respecting the voting powers on the said shares should be made. Then the agreement goes on to provide the Central Canada agrees to sell, and Ames and Bradshaw agree to buy, 1,700 shares for the sum of $114,750 payable as follows: Cash on the execution hereof, $7,750, and on the termination of this agreement under the fourth clause $107,000. Then the 1,700 shares to be transferred to the National Trust Company as trustees to be held as security for the payment of the said balance of purchase money; the Central Canada up to the time of the termination of the agreement to receive the dividends in lieu of interest on the purchase money. There is a provision for default. Then it goes on to provide, with the shares now owned or controlled by the purchasers they will on completion of the purchase own 3,650 shares and the Central Canada will have after the said purchase is completed 3,650 shares. This agreement is to continue in force for two years, and after that it may be determined by one year's notice in writing given by either party to the other. Then during the continuance of this agreement the shares are not to be parted with, they are to be held, and there may be, however, an agreement to reduce their holdings to a total of 5,100. Then there is to be no increase in the shareholding of any one without the consent of the others. Then there is something about the voting power, which is interesting: "The parties hereto shall co-operate," etc. (Reads clause 6 of the agreement.) That is there was a provision there for arbitration in respect of the directorate if the parties could not agree, you remember that? A.—I do not remember it, I have no doubt that is correct, I no doubt read it at the time.

Q.—That is somewhat unusual; what was the object of that? A.—I could not tell you more than just what it says there. As I said to you the other day this was not made at all upon my motion. I preferred to keep the stock as it was. Mr. Bradshaw and Mr. Ames preferred to have a one-half interest in it, and as I say we conceded that and that agreement was prepared by them practically for my signature after we had discussed it.

Q.—The arbitration provision I suppose was intended, and it seems to have been intended to prevent a deadlock in case the parties could not agree, they had equal voting power? A.—Yes.

Q.—And if they did not agree upon any question of policy or any question of election then this was intended to get over the deadlock? A.—To get over that I presume.

Q.—That might, of course as you see, reduce all these shares, reduce the voting effectiveness of all these shares to one vote, that is the vote of the person who might be elected by arbitration? A.—Yes, I suppose it would have that effect.

Q.—Then there is a provision for adjournment on any question of policy the parties are not agreed upon, to try and agree during the adjournment; if they do not then there is to be an arbitration again; this might result in the control of a joint stock company by an arbitrator; you see that of course, and in that respect it strikes me as being unusual? A.—The agreement as I say was prepared I think by Mr. Lash, if I remember rightly, prepared largely by Mr. Ames and Mr. Bradshaw I think. The agreement was submitted to me, and I read it over and did not see any objection to it and consented to it, although I would have preferred to leave it as it was before.

Q.—The final provision is a provision for the year's notice determining the agreement, containing as an essential part thereof an offer by the party giving the same either to buy or sell at a price to be named? A.—Yes sir.

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Agreement with regard to Imperial Life shares referred to marked as (Exhibit 187.)

Q—.Then one other matter about that, and I am through with that; you were good enough to say you would find out for us what it was you paid to get rid of that agreement? A.—It was not paid to get rid of the agreement, it was paid after Mr. Ames' suspension, and when they wanted to be released of it as a matter of necessity.

Q.—Did Mr. Bradshaw want to be relieved of it? A.—Yes, Mr. Bradshaw wanted to be relieved of it.

Q.—That is not according to our information; are you quite sure of that? A.—Yes sir, I am quite sure of it; he could not have carried it through.

Q.—If he wanted to be relieved of it all he would have to do would be to forfeit? A.—Yes, but if he could get $40,000 for forfeiting it I suppose he would prefer to take it.

Q.—I should think the man who paid $40,000 was the man who wanted to get rid of it rather than the man who accepted that? A.—If you knew all the circumstances of the time you would not think that. Mr. Ames had in the meantime been unfortunate in business and suspended payment, and Mr. Bradshaw felt—Mr. Bradshaw would give evidence himself—but I do not think he had the silghtest idea of continuing it himself alone; if he did it is entirely news to me.

Q.—If he did not want to continue it himself you might have, I should have thought, got rid, or permitted him to get rid of it, on so much easier terms for yourself? A.—I could have done, but I dealt very liberally with it because I knew the circumstances required it. These men had both, I fancy, lost money in transactions and they were very glad to get the assistance that this advanced price gave them, and I was very willing to give it to them, but for the purpose of assisting both these men in their financial matters at that time. The two together received $66,933.91.

Q.—Divide that for me, Mr. Bradshaw? A.—We can tell you that in a few minutes.

Q.—But you have told me you were not anxious to do it from the beginning? A.—I was not anxious to make that agreement, I preferred just to keep it as I first started it, and as I first explained to the other shareholders who joined me. I wanted to have a substantial majority of the interest in the company, and I was not pleased with the change that was then made, but I think I am perfectly safe in saying that when the agreement for cancellation of that agreement was made that they were all entirely in accord with it, and very much pleased to have it treated as liberally as it was. I have no doubt at all it would have been forfeited without that payment.

Q.—Had the stock advanced at all? A.—The stock had not advanced on the market, but my own opinion was that the stock was well worth even that increased amount. The stock of a life insurance company takes a good many years of very hard, earnest, anxious work to build it up, but when the company grows and gets a large business it is a good asset.

Q.—You see the Central Canada appears to get $7,750 by way of advance on the purchase money? A.—Yes sir, that is all they had been paid.

Q.—The re-payment of that would have left matters just where they were so far as money was concerned? A.—Yes sir.

Q.—And the stock might have been just handed back, leaving the parties where they were? A.—Yes.

Q.—Leaving the parties in other words in a position in which from the beginning you preferred they should be? A.—Yes sir.

Q.—I think I must ask you to explain why you say in the face of that that it was at their instance that you paid the larger sum and for their benefit? A.—I do not think I said it was at their instance.

Q.—You said on account of Mr. Ames' suspension they did not want to have to carry it out? A.—No sir.

Q.—If they did not want to have to carry it out I suppose they wanted you to take back your shares? A.—Yes sir.

Q.—If they were anxious to get out of the obligation why did you not drive a harder bargain? A.—Because I wanted them both to get out of their financial difficulties, and I contributed a good deal more than that in other ways to assist in that, which I will no doubt get back in due time when Mr. Ames is able to recover from his difficulties, but I was dealing not with two men that I wanted to drive a hard bargain with, but with two men whom I wanted to see get on their feet as

quickly as they could. Mr. Bradshaw while no relative or connection of mine in anyway is a very valuable and competent officer, and I regarded it as very important to retain his services, and to retain his services where he was entirely relieved from financial embarrassment of any kind, and it was for that purpose that I did it. The idea never occurred to me that Mr. Bradshaw desired to retain his interest in that way, Mr. Bradshaw has known from the time that he joined the company that at any time he wanted any holding of the stock he could get it at the cost, just what it cost, and that position remains to-day. If he wanted a thousand shares of that stock he could get it at just what it has cost me.

Q.—Then, to sum up, you say it is an entirely erroneous view to take of the transaction that you wanted to have this stock re-vested in you, and that Mr. Bradshaw declined to do it unless he were paid a large sum of money? A.—Yes sir, that is true; that is an erroneous view. The cancellation of that agreement was entirely satisfactory to every person concerned. There was no pressure or force of any kind.

Q.—It would be to him certainly in the view you have expressed, that he was not able to carry it out? A.—I am sure his explanation of it will be the same as mine, because he knows to-day that he could get back any portion of that stock. I would not sell him nor anybody else, if I could help it, an amount of stock that would leave me a minority holder, but I would be very glad to have him take any that he wanted at just what it has cost me. I would be very glad to have others do the same thing.

Q.—You put that very largely I understand upon the desire to retain the efficient services of a willing man? A.—Yes, that is true, and made a verbal agreement with him at the time that he would remain in the service of the company I think it was at least 5 years, not as much longer as he liked, but that he would not leave the company for at least five years, I think it may have been three.

Q.—In connection with the call loans to the Dominion Securities Company a letter has been given to us, or a copy of a letter and two agreements, one between the Dominion Securities and the Central Canada and the other between the Dominion Securities, the Central Canada and the Canada Life; you have looked at these since we spoke about them before? A.—Yes sir. I have a carefully prepared statement here with all the facts, giving all the relations between the Canada Life Assuraince Company and any of these companies or anybody else in connection with them, and it also gives the information for which you asked me as to my own personal holdings. I have given you all that information, but along with giving you that I submit that I would like you to examine the statement yourself, and if you think it is necessary or desirable in this investigation or in the public interests that that information should be made public regarding my own personal matters I am quite willing it should be done, but I would like you to consider that matter yourself after going all over this statement before asking me to give information touching my private matters.

Q.—Do you embrace in that the matters of the Central Canada? A.—I embrace in it everything.

Q.—Connected with this Dominion Coal? A.—Yes; and the whole statement is there, and it refers to every transaction that has taken place between the Canada Life Assurance Company and any other individual or corporation with which I am identified or with which I am not. Every transaction touching the Canada Life and Dominion Coal, and it gives the information as to my personal matters that if you feel you are entitled to make public I have no objection to you doing it, but I do not think it is fair to other institutions and individuals with which I am connected to have affairs which have no relation to the Canada Life made public; but that is a matter I leave entirely with yourself, if you will take that statement—

Q.—So far as I am concerned it is not at all a question of good taste or desire to make or to avoid publicity at all; it is a question as to what knowledge it is my duty to lay before the Commission? A.—Then you can lay this before the Commission.

Q.—The Commission of course is a public body? A.—That is true, but what I mean is whether that should be made public or not. If this honorable Court says it should, or if you say it should or anybody else, I am perfectly satisfied. I do not think it ought to be published to the world

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

because I do not think they are interested in my personal affairs. However I am perfectly satisfied. I have prepared it in detail. There is nothing I want to hide whatever, the knowledge of which would in any way facilitate the progress and work of this honorable Court.

Q.—Let me put a general question first—

MR. NESBITT: Let Mr. Shepley see that. There is a part I would not have furnished at all, but the Senator is very keen that there should not be a suggestion even that he has concealed anything. (Statement handed to Mr. Shepley).

WITNESS: I should be perfectly satisfied of course for the counsel for the Provinces to see it too; it is not anything I want to hide.

MR. NESBITT: I have said that to Mr. Shepley.

Mr. Shepley looks over statement handed to him by witness.

MR. SHEPLEY: My learned friends are going to give me some further documents upon this. I do not want to say that I feel any doubt about it, because at present I do not feel any doubt about the necessity of dealing with these matters, but I will take a look at the agreement. One wants to be careful to consider matters. I only wish I had this a little earlier though I dare say it will probably agree with the information we have been able to get from the books, at all events to a certain extent.

MR. NESBITT: I think it will agree absolutely; I mean to say the Senator's instructions were to give the auditors every facility; he threw open a lot of things that I would not have thrown open; I may say that.

MR. SHEPLEY: Have you made enquiries with respect to an entirely different period and with respect to entirely different transactions with regard to the Dominion Coal and the Twin City bought in 1903—I am leaving for the moment 1902 transactions by themselves until there has been some consideration of that; I come now to the 1903 transactions, about the time of the Ames' transaction? A.—Everything I know about coal is in that statement, and I will read it if you desire that I should without a moment's hesitation. My own intention was to read it this morning immediately at the opening of the Court, and when I showed it to my solicitor he thought the private matters, matters referring to my personal accounts, should not be read without consultation, and for that reason I just put it to you in that way. I have given you everything I know, and I am quite prepared to read it, in fact I am quite willing to read it, there is nothing that I have any hesitation in letting the public know.

MR. NESBITT: I may say as to that I have gone over it very carefully with the Senator; his attitude about it is precisely as he has stated; there has been so much said about himself and his connection with these various companies and his instructions to me were he desired every policyholder to know all he ever did in connection with the company, because his view was that all he had ever done was for the ultimate benefit of the policyholder and the company. When I came to look at it, as Mr. Shepley will find when he comes to look at it with his accountants, there are a number of names there of gentlemen about town who have no more connection with the Canada Life, some of them at least, than any gentleman of the press here present. I may say when the syndicate was dissolved it appears a number of these gentlemen had to take their stock out of the syndicate pool at 129, that stock is now 78. You will readily see, supposing any of your names were in there, and it was known you held 300 to 1,000 shares at a loss of 40 to 50 points, it might have so far as these gentlemen are concerned a very serious effect with their banks, with their general standing, and the effect may be very wide-reaching. Supposing I were in there, which happily I am not, as a holder of 500 shares, 50 points, $25,000—I think my butcher would be very anxious about his next month's account; and I think there must be a good many gentlemen who would resent it. It is not in the public interest, and the Senator has no right in my view to make public those matters about gentlemen who have no concern whatever with the Canada Life or this inquiry. So that I take the responsibility without hesitation about the matter. I take the full responsibility.

MR. SHEPLEY: Let me put the thing from a different standpoint. My consideration of the matter is not to be supposed for a moment to indicate that I myself have any doubt about it. The point that strikes me about it is this, if gentlemen who have no connection whatever with the Canada Life associate themselves with gentlemen who have some connection with the Canada Life, directly or indirectly, having regard to a possible upward

movement in certain stock, and in the course of the association together they purchase stock largely and are assisted in the purchase by the funds of the Canada Life, purchased upon a call loan, then I think the whole transaction is a transaction which requires to be examined into. Out of deference not only to what my learned friend has said, but to what Senator Cox has asked I feel it my duty to consider the matter, but I do not want it to be understood that I have been proposing to give this evidence without considering the matter carefully.

MR. NESBITT: The syndicate transaction has reference in the most indirect manner to the call loan, not the slightest bearing upon it?

WITNESS: I would like to read that statement if I may?

MR. SHEPLEY: I think you had better let me go through it first, Senator Cox, because if I come to the conclusion I must present it ~~I must present it~~ in my own fashion? A.—The questions you are asking me I cannot remember, I really cannot keep all these figures in my mind.

Q.—I am not asking you any question about it, and when I do you will have the paper in your hand? A.—The quicker it is read now the better. I would like it, because already suspicion will go around that there has been something wrong with the Canada Life Assurance Company, and I want to demonstrate that is not the case.

Q.—That is a matter for yourself and counsel to decide? A.—I am willing to give the matter further consideration if it is desired.

MR. NESBITT: I am not in the least careful if these gentlemen want their affairs, exposed. I have nothing to do with it. You had better read it, Senator. The names are not in there?

WITNESS: No, the names are not.

MR. SHEPLEY: The propriety of disclosing the names can be discussed after?

MR. NESBITT: Yes; you had better let the Senator read it.

MR. SHEPLEY: Q.—You will please let me put the question to you? A.—Would you let me read it first?

Q.—I would rather not, because I think I would be surrendering the conduct of the Commission to you, and I do not want to do that? A.—I assume that what you want is a plain, unvarnished statement of the affairs as they exist, and for the papers to get it correctly?

Q.—Yes? A.—I presume the object of this Commission is not to convey a wrong impression to the public as to the real state of affairs, and where there are a number of institutions and individuals concerned the questions asked first on one point and then on another would lead to confusion and to misunderstanding, and this is just practically an answer to the question that you asked me on Friday, and a statement of all the facts, and then when that is read I can answer any question you like on it, I am sure what you want and what this honorable Court wants and what everybody wants is to get a plain statement. You know how readily it is—

Q.—Of course, but I do prefer to get that in the regular fashion by asking questions and having them answered? A.—I will have to say that I do not know and that I cannot remember and so on. All these questions can follow my statement, will you let me hand this to the papers?

Q.—It is hardly fair to counsel conducting the investigation to read the statement and expect him to ask questions about it without ever examining it? A.—Would you kindly read it and examine it and then ask me questions upon it?

Q.—That is what I was proposing to do, but you thought you had rather go on? A.—But I want that to go in previous.

Q.—You mean to-day? A.—I would like it to go in before you question me, because I know I cannot carry the numerous transactions and figures in my head, and I have prepared them all, and after I have read them—

Q.—With that in your hand, I think Senator, you will be quite able to answer the questions, and you will not be hurried at all—

JUDGE MACTAVISH: When the trouble which you anticipate arises we will deal with it.

MR. SHEPLEY: Q.—You have already said, that by reason of the lease which was in contemplation of the property of the Coal Company to the Iron & Steel Company at a rental which would pay an 8 per cent. dividend upon the common stock of the Coal Company, it was anticipated among those who were interested and others that there would be a rise in the price of stock? A.—Yes, it was a matter of public discussion.

Q.—One of the companies in which you were interested—there may be no objection to my stating the name of the company, the Provident Savings—

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

had at that time some considerable holdings; the Provident Savings when it was quite low had purchased some 3,000 shares which they were holding at an average of about 48½; can you get that from your papers so as to say yes to it? A.—That transaction I think was long before there was any contemplation of the lease.

Q.—That is true, I said some time before; they had purchased at a much lower figure than it was possible to purchase when the flurry commenced? A.—For many years the stock was 40, 45, along there; that was before I was a director of the Coal Company I think.

Q.—Then the Provident holding 3,000 between February and April, 1902, purchased 6,720 more shares? A. —Yes; Mr. Morrow says that is correct.

Q.—And the average price of purchase was 71 to 129? A.—Yes.

Q.—That made a holding of 9,720 shares in all in connection with the Provident; then the Central Canada bought 9,370 shares between February and April at the same prices, 71 to 129? A.—Yes; Mr. Morrow says that is correct.

Q.—And then there was a purchaser of 10,000 shares within the same period, he may have been acting for others, but there was a gentleman in Montreal who purchased 10,000? A.—Yes.

Q.—And his prices were 76 to 91? A.—I do not understand what that has to do with me exactly.

MR. MORROW: What Mr. Shepley is getting at are all the transactions that went through the Dominion Securities.

MR. SHEPLEY: You see all these centred in the Company which was borrowing money from the Canada Life.

Q.—My question as to the 10,000 shares at 76 to 91 I think has not yet been answered—that is right, is it? A.—It would be purchased for a client.

MR. MORROW: That is a man with whom we were having transactions, and that 10,000 shares was simply purchased and handed over to him within the same week.

MR. SHEPLEY: That was handled by the Dominion Securities Company—

MR. MORROW: We simply took it up for the broker and drew on Montreal. It had nothing in the world to do with the loan from the Canada Life in any shape or form.

MR. SHEPLEY: I have no objection to it being stated that Mr. Morrow says at this stage it had not.

MR. SHEPLEY: Q.—Another gentleman purchased 2,000 at 94, and 850 at 125½.

MR. MORROW: The same thing applies to that.

MR. SHEPLEY: You say as to that the loan had nothing to do with that?

MR. MORROW: Nothing whatever.

MR. SHEPLEY: Q.—An official of the Central Canada, 1,500 at 71 and 1,000 at 93; that I understand is assented to?

MR. MORROW: The same thing with that, simply taken up by him as soon as it was purchased.

MR. SHEPLEY: Then another official 1,500 shares at 71 and the Canada Life itself 1,000?

MR. MORROW: 1,000 at 70; the Canada Life was purchased at the lowest price.

WITNESS: That was the thousand they had the option to take in connection with the $500,000 loan.

MR. SHEPLEY: Then, from what Mr. Morrow has told me, you exclude the 10,000 shares, the 2,000, the 850 and the 1,500, and the 1,500, and the 1,000—all those you would exclude on what you have said to me?

MR. MORROW: Yes.

MR. SHEPLEY: The balance would be 20,090.

MR. MORROW: Somewhere around there.

MR. SHEPLEY: On the 10th February an agreement was made between the Dominion Securities Corporation and the Central Canada Loan & Savings Company, the Dominion Securities Corporation being called the vendor and the Central Canada the purchaser—witnessing that the purchaser has bought from the vendor ordinary shares of the common or ordinary stock of the Dominion Coal Company, Limited, and there remains unpaid of the purchase money the sum of $500,000, payable with interest at 5 per cent. per annum on the 10th February, 1903. Can you tell me having regard to the transaction which we have been speaking about here, how the Dominion Securities Corporation figures as the vendor of those shares? A.—What I understand is that that agreement was made— you are now speaking of the loan in which the Canada Life—

Q.—Yes, but I have not come to

the document which relates to that loan, but the document of an alleged sale from Securities Corporation to the Central Canada? A.—That was made for the purpose of giving to the Canada Life the covenant of the Central Canada on this $500,000 loan, as well as the covenant of the Dominion Securities Corporation, and the stock at 50 cents on the dollar?

Q.—The Dominion Securities Corporation was, in the form of the transaction, purporting to act as brokers for these people we have spoken about? A.—Yes, that is it.

Q.—And it was purporting to make a loan from the Canada Life for the purpose of the Central Canada Loan & Savings Company?

MR. MORROW: For their 10,000 shares.

WITNESS: Yes.

MR. SHEPLEY: Which were their 10,000 shares, because we have only 9,370 in the statement we have got—what other shares were to go to them, or was there any in particular?

MR. MORROW: No particular, you cannot specify that. The shares were borrowed upon different places in addition to this loan.

Q.—How much more money besides this $500,000 was borrowed for the purpose of carrying out the transactions which have been enumerated?

MR. MORROW: Sufficient to pay for the balance of the stock purchased, the $700,000, in addition from various financial institutions.

MR. SHEPLEY: That more money was borrowed to pay all the money—

MR. MORROW: All less the margin of 20 points.

MR. SHEPLEY: There is a margining provision here which I need not trouble about as between the Securities Corporation and the Central Canada. Then comes the provision which enables the Securities Corporation to borrow: "The vendor having purchased said shares with a view to this sale the purchaser agrees that the vendor may borrow on the securities of said shares to the extent of $50 per share, and pledge and transfer the shares purchased as security for the moneys borrowed at interest, and may also assign this contract and promise of the purchaser as security therefor, and may give the lender of such moneys the option, to be exercised, on or before the tenth day of February, 1903, of acquiring 1,000 of the said 10,000 shares at the price of $70 per share." That was the agreement between those two companies. Then there was an additional agreement between the Dominion Securities Corporation, the vendor, the Central Canada, purchaser, and the Canada Life, lender; that was 13th February? A.—That is the same transaction.

Q.—And in that the transaction recites the previous agreement, and witnesses that the vendor in consideration of $500,000 advanced by the lender assigns to the lender the unpaid purchase money of the said 10,000, all interest under the annexed agreement, and gives the option, and the Central Canada assents to the assignment and agrees with the lender to pay to it to the extent of the moneys so advanced and remaining unpaid the full unpaid purchase money and interest according to the term of the said agreement. That was the method adopted for the purpose of getting the liability of the Central Canada as well as— A.—Yes, you will note the Canada Life had a margin of $200,000 and a covenant of the Central Canada besides.

Q.—I am not saying the security was not sufficient; then there was a letter of the same date to the treasurer of the Canada Life—there is no signature to the copy.

MR. MORROW: This agreement was not ready at the time, at the first fifty—it was borrowed in fifty, fifty, and two hundred, or something like that, whatever the different amounts were

Q.—That was signed by the—

MR. MORROW: The Assistant Manager of the Central Canada.

Q.—That was a letter hypothecating or handing over a hypothecation for an aliquot portion? A.—Yes, while that agreement was being drawn.

—The agreement between the Dominion Securities Corporation, the Central Canada and the Canada Life, together with the letter of the 13th February, all annexed together, marked as Exhibit 188.

Q.—Be good enough to refer to the account you have there, and we will have put upon the record the way in which the moneys were paid over by the Canada Life? A.—That is not in this statement.

Q.—I should have perhaps asked you a question first; is there an account there among the papers which you have of the moneys advanced on that loan? A.—Mr. Watt will have that. (Mr. Watt produces a statement.)

Q.—That was advanced; on the 13th February, $50,000; on the 15th February, $200,000; 19th February, $250,000; and on the first was received 1,000

shares, on the 2nd 4,000 shares, and on the 3rd 5,000 shares. Then those were paid back, $200,000 on the 17th April, $230,000 on the 21st April, and $70,-000 on the 21st April, and the releases were 4,000 and 5,000 and 1,000 respectively? A.—That was two months after the loan was made.

Q.—In that 21st, the third, is the stock you took up under the option? A.—Yes, the last thousand.

Q.—And you wiped out the balance of your debt, there was no payment made, you wiped out the balance of the debt, $70,000? A.—Yes.

Q.—In addition to that loan you made certain other loans to other persons, the Canada Life did, for the purposes of enabling transactions in this stock to be carried? A.—Mr. Watt will be able to tell you that.

Q.—That is all in the statement you have in your hand; we will have it put upon the record? A.—That is the document I want to read.

Q.—I thought it was this document? A.—It is a continuation of the whole thing.

Q.—I will read this without garbling it at all; on the 14th February the Canada Life lent $4,850 on 100 shares; on the 2nd September, 1902, $25,000 on 200 shares; 30th September $11,000 on 100 shares; 2nd March, 1903, $50,-000 on 500 shares; 31st March, 1903, $11,000 on 100 shares; 2nd March, 1903, $50,000 on 500 shares; 31st March, 1903, $11,000 on 100 shares? A.—Yes.

Q.—3rd June, 1903, $2,000 on 25 shares; 16th June, 1903, $7,500 on 100 shares; 23rd April, 1903, $70,000 on 700 shares; 21st May, 1903, $96,262.50 on 700 shares; 3rd June, 1903, $17,-083.50 on 210 shares; on the 15th June, 1903, $7,339.35 on 100 shares; then from March 18th to August 22nd, 1902, $318,600 on 3,030 shares; on the 17th January, 1903, $15,000 on 145 shares; 22nd January, 1903, $13,700 on 125 shares—those are all the transactions you had by way of loans on the Dominion Coal? A.—Yes, all the transactions for all time that everybody and every one, with the exception of one, a small loan secured by other small stocks, is the only one of the whole that has not been paid off nearly three years ago.

Q.—I notice these loans are loans which indicate that the stock was taken as worth at least par? A.—It was worth at that time a good deal more than par.

Q.—Were any of these loans in respect of which you required insurance policies to be taken out? A.—There is just one loan of $7,500, and we took a three thousand dollar policy; the stock at that time was worth about par I think.

Q.—One other question about those loans; were any of those loans made to officers or employees of the Canada Life? A.—Some of the small loans were. You have of course the name of them in the minutes and in the company's letters; we have only withheld the names there.

Q.—So long as you tell me which of these were to employees of the Canada Life? A.—Loan number 7 and loan number 10.

Q.—The loan of $2,000 on the 3rd June, 1903; and June 3rd, 1903, June 15th, 1903, for $17,083.50 and $7,339.-35 respectively; those were to servants of the company? A.—Yes.

Q.—And do you know whether those servants had been margining these transactions elsewhere before you loaned? A.—I could not tell you that.

Q.—Mr. Watt says they had; was that a common thing in the Canada Life for your— . A.—No sir, it is not a common thing and it is I think the only time it has occurred either before or since, and the company was amply protected, and I suppose assisted these men under stress to a certain extent, I do not know, but they were amply secured and the total is very small.

Q.—I assume you do not approve of your employees doing that sort of thing, do you? A.—No sir, we do not.

Q.—Do you forbid it? A.—We have forbidden it since, it is not done now at all, and that is the only time it was ever done.

Q.—In the Dominion Coal? A.—In the Dominion Coal or in anything else that I know of. The loans of the Canada Life, you will see in going through them are a very, very clean lot of assets, clean loans and clean right throughout.

Q.—Do you know in respect of those loans whether the employees themselves paid them off, or whether they were taken over? A.—I could not give you that information myself.

Q.—The larger one is still being carried on—

MR. WATT: To the extent of 193 shares.

WITNESS: That is the only loan; that has, as I understand it, Bank of Hamilton, and Bank of Commerce, and Imperial Bank and a few shares of Hamilton Provident, which I think

led to the suspicion that I had controlled the Hamilton Provident.

Q.—That is one of the companies you said you wished you did? A.—Yes.

Q.—What is this page? A.—That is of the 3,000 shares that the company still owns.

Q.—You hold 3,100 shares, your first holding is that purchase at 70 under the option? A.—Yes.

Q.—And you have since bought the balance up to 3,100 shares? A.—Yes sir.

Q.—I think you said that these accounts which you exhibit show all the dealings that you had any interest in direct or indirect in Dominion Coal? A.—Do you mean in this? (Refers to statement.)

Q.—Yes? A.—What I say is this exhibits a statement of every transaction in the Canada Life in Dominion Coal with anybody, whether connected with me or not, just what has been read.

Q.—One other question about that; we have the figures with regard to the market, if these shares held by these various persons to whom reference has been made had been sold out in April they would of course have realized a very handsome profit? A.—Yes sir.

Q.—Did the Central Canada in fact sell out? A.—They have been buying and selling all the time.

Q.—Did they sell out that holding and make a large profit? A.—I think they did, buying and selling all the time.

Q.—About how much would they turn over selling out in April or whenever they did, how much would they make by the turn-over? A.—I could not tell you that, without getting the figures. The Canada Life could have sold out at the same time.

Q.—The Canada Life was buying to hold, the Central Canada was buying to sell? A.—Yes.

MR. NESBITT: That document shows the Canada Life never bought a single share during the whole of these selling transactions.

MR. SHEPLEY: Except at 70?

MR. NESBITT: Yes.

MR. SHEPLEY: I took Mr. Cox's statement to that effect a minute ago.

MR. ROWELL: On behalf of the Dominion Securities and the Central Canada I feel I am bound to take the position that my learned friend should not press a question asking as to transactions of the Central Canada and the Dominion Securities that in no way relate to the dealings of this Company with the Canada Life. It is already before Your Honors in evidence that the Dominion Securities is one of the largest bond and security dealers in the Dominion, handling over forty millions of securities in this way, and doing business for various clients, and having a large number of stockholders in no way interested in the Canada Life at all, and with all respect I submit that it is not within the scope of the work of this Commission to investigate what the profits or transactions with these other companies are.

MR. NESBITT: I do not suppose the Senator knows and that is an end of it.

MR. ROWELL: I want to make myself very plain here; anything that relates to transactions between either of these companies and the Canada Life or any other insurance company, the fullest possible information of every kind will be given which the counsel for the Government and the Commission desire.

MR. SHEPLEY: Of course my learned friend is setting up a man of straw to knock him down, because the Dominion Securities Corporation was not beneficially doing this at all, it was doing this as agent for these other people, and the Central Canada is an institution in which the Canada Life has so much interest, in which the directors of the Canada Life have so interest—

WITNESS: The Canada Life has no interest in the Central Canada.

MR. ROWELL: The Canada Life has no interest whatever in the Central Canada.

MR. SHEPLEY: Wait till you hear me through; I have put the point already; if the Central Canada has a common directorate to any extent whatever, and if the result of a transaction is that the money of the Canada Life is put out to enable the Central Canada to invest upon a rising market for the purpose of selling and turning over, that is a transaction which we are bound to inquire into.

MR. ROWELL: Just on that; in this particular transaction I do not know what the evidence will be, I am not advised, but if my learned friend's investigate any transaction of any kind not equally open to Your Honors to investigate any transaction of any kind of the Canada Life; any party who comes to the Canada Life and gets a loan on securities and that party then

34th day, June 4th, 1906.

afterwards disposes of the security at a profit or a loss, is it not equally open to this Commission to investigate that if the principle which my learned friend lays down is correct? The Canada Life has no stock in the Central Canada, the Central Canada is only concerned as a borrower; whether it made a profit or loss on the transaction I submit is entirely immaterial to the scope and the work of this Commission.

MR. SHEPLEY: Now, Mr. Cox, if you will let us take that statement of yours I will see if we cannot put it in just as it is, and have it read just as it is? A.—I will be very glad if you will, because that puts all these facts before the public in a fair way, and that is all I want.

Q.—Then on the 6th April, 1903, there was this other transaction in the minutes of the Board; I find this memorandum or entry: "Purchase of 1,000 Twin City Rapid Transit Company $110,732.81, including brokerage, and 2,000 shares Dominion Coal Company stock at $225,950, including brokerage was approved." That 2,000 shares does not include, I think, the thousand shares that were got by the Canada Life at 70 under that option, but it is another 2,000? A.—That is right; if you will allow me to ask the Treasurer.

JUDGE MacTAVISH: You can ask any officer of the company in regard to any question.

MR. SHEPLEY: Tell me what was the reason for that particular dealing at that time, and what other body was acting jointly with you or acting in concert with you?

MR. WATT: The Canadian Bank of Commerce and the Canada Life purchased jointly 2,000 shares of Twin City and 2,000 shares of Dominion Coal. The second thousand shares referred to in this resolution was a thousand shares purchased on the open market in March, 1903, as you see from that account in your hands.

Q.—I understand that; so that the only thing that we need to remember in connection with this resolution is the fact that it approves of a previous purchase, as well as authorizes a present purchase of 1,000 shares? A.—Yes.

Q.—It authorizes a present purchase—when I say present, a concurrent purchase of 1,000 Dominion Coal and 1,000 Twin City? A.—Yes.

Q.—And the Bank of Commerce you say was acting in concert with the Canada Life at that time, and purchased a like quantity of each stock? A.—Yes sir.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—What were the circumstances under which that purchase was authorized and made by the two institutions? A.—We believed it a good time to purchase, the prices were low then, and we thought it a desirable time to purchase; the best time to purchase is when the market is weak; the best time to sell is when it is strong.

Q.—The effect of purchasing a considerable quantity of stock is to strengthen the market? A.—Yes.

Q.—You would not, I suppose question the propriety of my suggestion, if I suggest that the object of the Bank of Commerce and the Canada Life at that time was to strengthen the market? A.—No sir.

Q.—I would be wrong or right? A.—You would be right; at that time all the securities in the country were falling.

Q.—I suppose the bank will have to look after itself, but do you look upon the strengthening of the share market as a legitimate object of a life insurance company? A.—I think that this particular transaction was quite justified at the time, I think so; I take the full responsibility for having done it; it protected our own holdings and protected the market generally.

Q.—Protecting your own holdings, protecting the market generally? A.—Yes.

Q.—If the market for instance was weak at that time in Dominion Coal you could have still sold upon the market as it then stood at a profit? A.—Yes sir.

Q.—And you wanted to maintain the market? A.—Yes; we wanted to hold the stock for investment; we bought it for that.

Q.—You were not then holding any Twin City? A.—We had 1,000 shares of Twin City before that.

Q.—You still hold it? A.—No, we sold it because the Insurance Department took objection to it; we made a profit and we would have made a larger profit if we had held it till now, but in deference to the Insurance Department's view we sold.

Q.—Will you venture to criticize the suggestion that it is not desirable for a company with investments to look after, which is not of itself of a speculative character at all, would you criticize the suggestion that it is not a proper condition that that company shall feel itself under an obligation to buy for the purpose of maintaining a falling market? A.—I will quite accept that suggestion, and we have acted upon it.

34th day, June 4th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—How can a company prevent itself from being put into a position of finding it prudent to buy in a falling market? A.—I do not think that we should put ourselves in that position or remain in that position; all kinds of securities fall, there may be a shrinkage in any kind; there are times—

Q.—You say that about this time in 1903— A.—As I said a few minutes ago the market at that time was declining.

MR. WATT: The greatest percentage of shrinkage in our securities in that year was on Government securities in proportion to the amount held.

MR. SHEPLEY: There was a decline, however, generally speaking in all securities? A.—Yes.

MR. WATT: British Consols in that year fell 7 points.

WITNESS: Will you not allow me now to read that statement which is a fair statement consecutively—

Q.—I hope to be able to give my full and free assent to do that, but I want to be able to read it myself? A.—All I want to have is the papers and the public to understand the transactions just as they occurred. The information that has now been taken down by the papers I think will lead to the conclusion that the Canada Life's money has been used for the benefit of the other institutions. I think that a statement just as it is prepared and as your auditor will certify to be correct, will show that is not the case, and I think that I am entitled to have that fact before the public and then it can be criticized and cross-examined fully, but the fact is that the Canada Life's money was not used—

Q.—What I would like to do would be this: I am very unwilling you should think or anybody should think, that I am doing you even temporarily any injustice, but I do not want to put upon the record, because if it is read it goes upon the record, a statement which I have had no opportunity of looking at? A.—It is a statement of facts we have been going over now, only it gives the dates.

Q.—Do you think the method we have pursued of asking questions and having them answered has left any improper impressions? A.—I do not think it has left an improper impression; I do not think the questions could have been asked more frankly or more courteously than what they have but I will be bound to say the newspapers have not got the facts just arranged in the order in which they occurred and the dates that would give the public a fair statement of the position. The Canada Life Assurance Company has not in any way taken any risk or been involved in any speculations or anything of that kind. These 3,000 shares of stock purchased for investment I felt at that time, the directors felt at the time, was a good investment, and we believed then and be believe now that it is a good investment; we do not want the impression to go abroad that the Dominion Coal stock is a speculative stock. It represents one of the most valuable properties on this continent. Its capitalization is fully represented by its immense coal areas and by its railway system and by its fleet of steamers and by its harbors on the Atlantic seaboard, and by its terminals at Montreal, Halifax and St. John and other points. Altogether it is a property of very great value, and one of very great interest to this country, second only in importance to the Transcontinental Railways of our country, and because a number of people get speculating in the stock and kick it about in the market it should not be regarded as an unsafe investment for a life insurance company. There is no better property on the American Continent than that property of the Dominion Coal Company, and it will be a pity in the interests of the country to have the impression go abroad that this was a myth or a speculative concern. It is a property of very great value and very great possibilities, and is earning today a large interest on its capitalization, only that the money is being expended in the further development of the property, and the dividend is withheld, and the withholding of that dividend depreciates the stock for the time being, but to a concern like the Canada Life Assurance Company that is able to hold it they are holding what will be ultimately to them of very substantial profit and not a loss at all, and there was no moment in the history of these transactions in which the Canada Life ran the risk of losing one dollar.

JUDGE MacTAVISH: The Commission desires to be fair to everybody, and especially we would not like to see any unjust reflection on such a sensitive institution as a life insurance company, but now that the public as well as the Commission have had the benefit of the statement you have just made, don't you think that that will be sufficient to correct any wrong impression that may have

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

been created by the previous part of your evidence? I do not see how there could be a wrong impression created, but if there has been such it seems to me your clear statement now would be in the meantime at all events, a sufficient answer to it. After Mr. Shepley has had an opportunity to read the statement which you have given him it may come before us again. It probably gives the transaction more in detail than you have given it to us to-day? A.—I accept your Honor's suggestion; what you have said is quite satisfactory. I am quite sure neither this honorable Court nor Mr. Shepley desires any injustice whatever to the companies, nor do I think the newspapermen, as a rule, desire any injustice, but unfortunately some of them are unfair in their criticisms and in their statements for reasons which I could explain if it was desirable to do so.

MR. SHEPLEY: Then there is one other matter about the Dominion Coal that I ask you about, and I ask about it because the Central Canada and the Canadian Bank of Commerce was interested in that—you have already said something with regard to it—that was a pool made on the 30th April, 1903? A.—Yes, sir, I have read the agreement you have in your hands.

Q.—The Home and Foreign Securities Company, that is Mr. Ames' Company? A.—Yes.

Q.—We have been furnished here with a copy of the arrangement; Messrs. Ames & Co. were the managers of the pool, the Central Canada was interested to the extent of 15 per cent. as you have told us? A.—Yes, sir, that is the only interest that we had in it, and no further interest in it than 15 per cent., that is all the Central Canada had.

Q.—And the Bank of Commerce at ten per cent.; that pool wound up on the 30th April, 1903? A.—Yes sir.

Q.—And their transactions amounted to a total of one and a half millions—

MR. MORROW: That was the balance.

MR. SHEPLEY: The transactions totalled $2,609,000 odd? A.—You understand the Canada Life had no interest whatever in that, directly or indirectly.

Copies to be put in of the Ames pooling arrangement, and the transactions of the pool.

Q.—I think, then, so far as Dominion Coal is concerned I have not anything further to ask you except that you should have an opportunity, if I am able to give it to you, of having this document put upon the record. When the Canada Life invested in the bonds of the Sao Paulo Company you had a personal interest in the success of that enterprize by virtue of you being the owner of certain stock? A.—I do not think so, not to any extent; in 1904, I had no interest then beyond a mere qualification as a director.

Q.—You joined in underwriting with certain other persons three million of bonds, with which came three millions of bonus stock? A.—I think that was all sold long before 1904. The Canada Life had no interest of course in that whatever.

Q.—I am not saying it had, but I am saying at the time you purchased, when the Canada Life purchased the bonds of this company as an investment you were a holder of stock in the company? A.—I had a few shares of the stock and no bonds.

Q.—You say a few shares; I was not able to find, and we looked for it very earnestly, I was not able to find up to that time you disposed of the common stock which you got as bonus

MR. MORROW: Disposed of some, not all of it; it might have been in Mr. Cox's name or not?

WITNESS: We can get that information for you.

MR. SHEPLEY: In 1901 you got half of three millions of bonds, you got an equal quantity, that is one and a half millions of stock issued to you as bonus? A.—The Canada Life did not buy anything till 1904.

Q.—I know; all I am doing it for is to show for what it is worth, that at the time you on behalf of the Canada Life invested in the bonds of this company you yourself were interested in the enterprize as a holder of stock? A.—I would like to correct myself.

Q.—And I should like you to correct me if the information we have got from the books is wrong? A.—In 1904—

MR. NESBITT: Mr. Bruce can tell you what the facts are. It was declined twice until it was a going concern. It was declined in the very early days, and then when there was an established market and they would sell easy you took them at 87 I think. (The last sentence was addressed to Mr. Cox.)

MR. SHEPLEY: If the fact is that Mr. Cox's holding was gone or substantiatlly gone in 1904 let me know it.

34th day, June 4th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

MR. MORROW: Substantially gone; he had no bonds and very little stock.

MR. SHEPLEY: Give me an opportunity of verifying that from your book.

WITNESS: I am sure in my own mind that is correct.

MR. SHEPLEY: We have not been able to find a trace in the books—it records the purchase of the bonds by you originally—anything by way of getting rid of the common stock. We find you got rid of the bonds, but we have not found you got rid of the stock.

MR. MORROW: Mr. Cox was an underwriter of the Sao Paulo proposition 1900 and 1901, and this amount you are speaking of was his proportion of the underwriting. Almost immediately he gave away a good deal of that underwriting to different people, and a little later on gradually disposed of it with a certain percentage of stock bonus, so that by the end of 1901 he had no bonds whatever, and a small holding of stock.

Q.—We have not found any trace in the book of the disposition of the stock; we have found the bonds?

MR. MORROW: The stock went with the bonds.

Q.—You can show that to us? A.—

MR. MORROW: I showed it to Mr. Edwards on Saturday.

WITNESS: I just want to say here if I may that the Canada Life could have had large holdings in the Sao Paulo, Mexican and Rio, and these securities, could have had the underwriting and have made very large profits, but so careful are the directors of the Canada Life and so anxious am I to promote it in every way that we did not participate in these things, while the companies and the individuals did, myself personally among the other,—made large profits out of them. I only mention that to show that the Canada Life does not participate in these things. We did not buy the bonds until after the common stock was paying a six per cent. dividend; it is now eight per cent. I think. I only want to make that statement to show that the Canada Life has not been plunging or speculating.

Q.—Now a general question if you please, Mr. Cox. In the course of the financial transactions which you undertook by way of underwriting or otherwise from time to time, are you, apart from what the market may develop, remunerated in any way for your financing of these large matters? For instance, take a case like the underwriting of the Sao Paulo, you and two others undertook a very large underwriting there? A.—Yes, sir.

Q.—Do you get any advantage in respect of that undertaking beyond what the terms in the market will give? A.—Take our share of the underwriting; it is in that.

Q.—It is in your share of the underwriting? A.—Yes.

Q.—There is nothing in the way of commission or other advantage beyond that? A.—There may be transactions in which for guaranteeing a loan, for instance, half a dozen or a dozen people would get a commission for doing it.

Q—There are transactions of that sort? A.—I think there have been some transactions of that kind, where there was very heavy responsibility taken, and where the money could not be borrowed upon these new securities alone without guarantee, then a commission would be paid for guaranteeing them.

Q.—That was so, I think, in the case of the Sao Paulo underwriting? A.—Yes, that is the only transactionn I recall. There may have been others but that is the only one I recall. In the early stages of that project it was not known, a foreign security, and any transactions that were made had to be got upon the personal guarantee of the chief promoters of the company. But there are none of these cases in which the Canada Life lent any money at all.

Q.—Although there may be, perhaps, cases in which the Canala Life has purchased the securities with the guarantee? A.—The Canada Life has not purchased any stock of the Sao Paulo at any time, nor made any loans on it. They purchased a block of the bonds in 1904.

Q.—After the road got upon its feet and the common stock was paying dividends? A.—Yes, sir, the Canada Life never owned any of these securities after that, and then when the most conservative investors in the country were buying bonds at that time and they paid a handsome return upon the price at which we purchased them, the Board were unanimous in thinking it was a good investment, and they think so yet, but the Insurance Department took exception to them and in deference

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

to their opinion we sold them. Sold them at a profit.

Q.—Then I pass now to a quite different subject, with regard to the salaries, commissions and expenses of these various agencies and of the various officers. You have told me something about your own arrangements with the company prior and up to the time you came and after you got to Toronto, with the Eastern Ontario Branch? A.—Yes.

Q.—Had you up to the time you turned that over and went upon the Board any other remuneration than the profits of your agency? A.—I don't think so. No, sir.

Q.—From the Canada Life, I mean? A.—No.

Q.—I have been furnished with this as a statement of the net commissions in respect of the Eastern Ontario Branch, commencing with 1890 and running out to 1905? A.—Yes, that is for the year 1890 down to 1905.

Q.—The smallest year seems to have been 1895, when the net commissions were $13,593 and the largest year seems to have been 1904, when the net commissions were $19,895.25. There is one smaller year, 1901. I will run down the thousands: 14, 13, 14, 15, 13, 13, 15, 14, 15, 15, 16, 12, 13, 14, 19, 19? A.—The question that you asked me a few minutes ago, as to whether I had any other remuneration, I perhaps misunderstood you. I should state that the State of Michigan was a part of the Eastern Ontario field.

Q.—And that was dealt with separately? A.—Yes, separate accounts were kept, but it was the same. The correspondence and minutes will show that in about 1890 or somewheres along there—1890 Mr. Watts tells me—Michigan was added to the Eastern Ontario branch. The minutes and correspondence with Mr. Ramsay will show that.

Q.—Then the Michigan branch is produced to me also and from 1890 to 1895 inclusive the entry opposite is "No profits"? A.—Yes.

Q.—What does that mean? A.—That means that with Mr. Ramsay's consent and concurrence, the then manager of the Michigan branch was not doing any business, and with Mr. Ramsay's consent I purchased from him his interest in the contract. In other words he resigned in my favor and I took up his appointment and for that I paid him, I think it was $4,500. It was somewhere about that. Now that amount went to the debit of the branch and all the profits arising from the branch during these years went to wipe out that debit. Have I made myself clear?

Q.—I think you have. A.—You see, the Michigan branch started with a debit.

Q.—In 1890 I think you took it over? A.—Yes, and I paid to Mr. Holmes, the then manager of the branch, about $5,000. It may have been $4,500. That was charged to the branch and each year any profit accruing from it was applied in reduction of that $5,000.

Q.—By 1896 you had overcome that and got a small profit? A.—Of $864.13. In 1897 it was $1,412.66. It went up to $3,394 in 1898, and in 1899 it went up to $2,350. In 1900 to $4,407. In 1901 it went down to $1,785.75. In 1902 to $2,554.02. In 1903 it was $760.78. In 1904 it was $1,917.04 and in 1905 it became a debit of $578.81. Because of the greater expense incurred in the management, we insist upon getting a certain amount of business from the Eastern Ontario managers, and the more business they get the less profits they get.

Q.—Then with respect to the Michigan branch, its history seems to have been that Mr. Holmes was appointed in 1889 at a certain amount to cover salaries, travelling and other expenses, of $3,500 per year, and certain commissions, and then in 1890 you replaced him, arranging that he should be paid a certain sum of money? A.—Yes.

Q.—And then during the earlier years of your replacing him you have carried out no profit because any profits that were made were applied in getting rid of the Holmes debt? A.—Yes.

Q.—Since that time the profits that appear here, in order to arrive at your total earnings of the branch, should be added to the figures that appear under the head Eastern Ontario? A.—Yes.

Q.—Then you have told me that when you went upon the Board in 1892 you and your eldest son still remained the owners in partnership of this business? A.—Yes.

Q.—Then there was a time when your son was put in training for assistant General Manager? A.—Yes, when he became Assistant General.

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—When was that? A.—I think it was 1899.

Q.—We had the resolution read this morning. A.—I don't know what you mean by "put in training" for it. He was appointed.

Q.—Somebody told me he was. A.—You read from the minutes this morning the date of his appointment as Assistant General Manager. That was at the end if I remember rightly, or about the end of 1899. The 1st of July, 1899, I am told.

Q.—The first year during which he was Assistant General Manager seems to have been 1900 according to the minutes this morning and he was appointed at a salary of $6,000? A.—Assistant General Manager at a salary of $6,000.

Q.—That was the year you became President, 1900? A.—Yes.

Q.—Up to the time that he took the position of Assistant General Manager, had he been in receipt of anything except his share of the net commissions of the branch? A.—No.

Q.—Those had been divided between yourself and him? A.—Yes.

Q.—One question about this statement. It is so arranged as to give first agents commissions, that is sub-agents commissions, salaries and advances; these are all out-goes; travelling expenses, rent and taxes, telephone rent, insurance journals, advertising, guarantee premiums, and then that is a total of the disbursements out of your total premiums? A.—Yes.

Q.—And the other column gives the net? A.—Yes.

Q.—There are two or three of these items I want to ask you about. Take salaries and advances. I can understand salaries, but what are advances? A.—Advances to agents. Sometimes an agent in place of getting a salary gets a commission and we make a certain advance to him to be repaid from his commissions. In place of saying to a man, we give you $2,000 salary, we say, we will advance you $2,000 salary and any commissions you earn will be applied not in reduction of that but if your commissions are anything more than the $2,000 you will get the balance.

Q.—Does he keep the $2,000 if he only earns say $1,000? A.—Practically he does. It remains as a liability against him if he does not earn it but practically he had already got it and the chances are we would not——

Q.—What I mean is this, to the extent to which this is composed of advances in this way it is in a sense an asset? A.—It would be, yes, it would be a claim against the agent.

Q.—Something that you would have a right to make him pay back? A.—If you could.

Q.—If you could get it it would be added to your net commissions? A.—Yes, but generally the balance is the other way, that the advance is more than the commission. It occasionally happens that a successful agent will earn more than has been advanced to him and then he gets the balance, but as a rule it becomes a loss, we have to write it off.

Q.—There is another thing about this that I want to ask your explanation of. Nearly all of the items of these combined salaries and advances end with 66 cents. What is the reason for that?

MR. WATT: They are aliquot parts of $100.

MR. SHEPLEY: Then insurance journals, what is that? A.—They are like the Monetary Times, and several American journals, several Insurance Journals in Canada that we take for the information of the agents.

Q.—Then besides that charge for a branch like this, I suppose there is a very considerable charge for that at head office besides? A.—Yes.

Q.—Then take the next item, advertising. That would be only advertising in connection with your own branch? A.—Yes.

Q.—Besides that of course there is as we all know a large account for advertising in connection with head office? A.—Yes, a very considerable expenditure in that connection. Publication of the reports and the necessary amount of advertising.

Q.—I will put these documents in as one. (Exhibit 190. Analysis of the Eastern Ontario Branch Commissions for 1905.) In connection with the head office, do you advertise very extensively in magazines and periodical publications and newspapers? A.—We advertise pretty extensively in newspapers but not very extensively I think in periodicals.

Q.—I notice that some insurance companies advertise very extensively in periodicals. You say it has not been your custom to do that? A.—No, it has not been our custom to do that.

Q.—What is the nature of the advertisements you put in the newspapers A.—We publish our annual reports and our Government reports and a

34th day, June 4th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

number of things that we are advertising, and we advertise our business frequently.

Q.—One does not want to be too innocent, but do you tell us that when you have an important public meeting and it appears in our newspapers the next day, that that is paid for as an advertisement? A.—Yes sir always.

Q.—That is not printed as a matter of public news? A.—No sir we always have to pay for it.

Q.—Perhaps you are not paying for the reports of this commission in the newspapers? A.—I don't know whether we are or not.

Q.—What Government Reports do you publish? A.—For instance you will perhaps remember one very important Government report we had; the examination of our company by the State of Michigan. We had a very exhaustive examination. The officers of the State spent several weeks in going very exhaustively through our business, and it was at our request, because we have a large number of policyholders in the State of Michigan and in others of the American States, and we were anxious while the investigation was going on in New York to have a very thorough and exhaustive examination of our company, and have it published not only for the benefit of our policyholders in the United States, but also published in Canada for the benefit and the satisfaction of our policyholders here. We published that quite fully in many of our Canadian papers throughout the country.

Q.—That, without a close analysis of it must be rather expensive when you have a large meeting or a large Government report? A.—It is an important item, but we get a contract with our papers I think at about 6 cents a line.

MR. WATT: It ranges from 6 to 15 cents according to the different papers.

MR. COX: What I had in my mind at the moment is, that we had a contract with the Toronto World for publishing matter of that kind at 6 cents a line.

Q.—You say that you had contracts at that amount? A.—Yes, when it came to the publication of this report

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Q.—Are you speaking of the Michigan report? A.—Yes, that paper refused to publish it at 6 cents a line and demanded 25 cents.

Q.—The World knew a good thing when it saw it? A.—Which we refused to pay. Now this was all done by the advertising manager. I had nothing whatever to do with it.

Q.—You are giving the statement as it was reported to you? A.—I am speaking now as it was reported to me. And the fact that he did not pay that 25 cents may possibly explain why that commission is going on.

MR. NESBITT: Wll you say, Senator, just how long after the refusal the first attack was made? A.—I think it was the following day.

MR. SHEPLEY: You say the criticism followed upon the non-publication of your report? A.—Yes. Unfortunately, although not responsible for the matter at all, I have been standing the fire ever since.

Q.—Perhaps 25 cents a line is not too much? A.—Perhaps not.

Q.—You say at all events you had a contract in the particular instance at 6 cents? A.—Yes.

Q.—Even at that it runs to a good deal of money? A.—It comes to quite an important item, our advertising and printing.

Q.—Is that sort of publication essential to the successful pursuit of your operations in your view? A.—I think it helps it, giving publicity to the business. We think that it does. All companies I think spend about the same amount of money, about the same percentage.

Q.—Then following up this statement. The travelling expenses I wanted to ask about. Is that the travelling expenses of the branch or the sub-agents? A.—If you are using the figures there, yes sir, that would be the branch.

Q.—The travelling expenses of yourself, your son and your central staff? A.—The staff of the branch, yes.

Q.—That does not include travelling expenses of sub-agents? A.—In some cases, yes. In most of the cases I think it does. Many of the general agents where they have a field to cover of one or two counties, their travelling expenses are paid by the branch. I should say that there are no items in that for my travelling expenses.

Q.—Not for 1905 at all events? This is just a typical one; I want to get the general principles.

MR. HELLMUTH: What I desired to ask was whether this total of 19

was left over after paying the whole expenses of the staff? A.—Yes, after paying everything. The gross commissions for the branch were $79,537.42, out of which was paid $60,220.04.

MR. SHEPLEY: Then Mr. Cox, when you became president you at once took the salary of $20,000 a year? A.—Yes sir, as president and general manager.

Q.—And I think in some instances you got some small directors' fees besides, or did you? A.—I am not sure as to that.

Q.—I thought I saw it in one of the statements? A.—Mr. Watt tells me there was one case where $100 was paid to me and I did not know it. It was sent to my private account and I was not aware of it. The understanding was that I should not have any director's fees as president and general manager and I have not had them with the exception of that $100, which I only discovered when we were preparing the documents for this investigation and I thought it better to leave it there until it was over than to have the entry reversed, but when it is over, now that I have had an opportunity of explaining it, it will go back because I am not entitled to it.

Q.—Then during that year, as assistant general manager, Mr. E. W. Cox was getting $6,000 a year? A.—Yes.

Q.—Now neither of you, as I understand it, were sharing in the commissions of the Eastern Ontario branch or the Michigan branch, after your election as president and his appointment as assistant general manager? A.—That is correct, yes. My second son, or my third son.

Q.—And I gather from the accounts you have presented to me that there has been no amelioration of those accounts in favor of the company since then? A.—No.

Q.—They remain upon the same basis? A.—Yes.

Q.—What arrangement was made? A.—My son, Mr. H. C. Cox, was appointed manager and succeeded and that was done with the concurrence of every person.

Q.—Was there any transaction between yourself and Mr. E. W. Cox about that? A.—I purchased from Mr. E. W. Cox when he became assistant general manager one-half of his interest. We were equal partners.

Q.—His half interest in the business of the branch? A.—Yes.

Q.—In the commissions of the branch? A.—Yes, and for that I paid him $40,000.

Q.—Then it all belonged to you apparently and what did you do with it? A.—I handed it over to my son, Mr. H. C. Cox.

Q.—Did you sell it or give it to him? A.—I gave it to him.

Q.—Now his position prior to that was what? Because I have a little different date for him as commencing to have an interest? A.—His interest commenced when he first went into the office as a typewriter I think some years before, in 1895.

Q.—I mean his interest in these commissions. A little card has been given me here in respect of your son, H. C. Cox, which puts him in December, 1898, a year earlier than we are talking about, in possession of half the net commissions. From the end of 1898, that would be for the year 1899, your son E. W. Cox was—I use the word—in training for manager, he was attending to the Hamilton office? A.—He was appointed assistant general manager.

Q.—That was in 1900, when you were appointed president. What Mr. Watt tells me is that in December, 1898, your son H. C. Cox came into possession of a right to receive half the commissions? A.—I have not got these dates quite clear in my mind, but I have no doubt the records will show them. I have always regarded the good-will of that business as an asset of my own to deal with as I thought proper. While there is no written contract of that kind with any of our representatives, still that is a well recognized fact. For instance, our Montreal manager, in the same position as I was in Eastern Ontario, retired from the company upon a payment of $5,000 a year. He was 78 years of age I think, and retired upon a payment of $5,000 a year and a certain amount to be paid to his family at his death. He is still living and drawing the $5,000. We have had other instances of the same kind. For instance, our manager for Winnipeg had a field from Port Arthur to British Columbia and we have from time to time taken places off his branch and divided up the territory, and wherever he surrendered, for instance first the Province of British Columbia, we paid him a certain amount for the cancellation of

34th day, June 4th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

his claim upon the commissions in that, and so on down until now his field is Manitoba. I think there have been four new branches. Then Mr. Ramsay, after a service of 40 years in the company, retired upon an annuity.

Q.—Then I see that in 1895 your son H. C. Cox was getting $40 a month? A.—Yes, sir.

Q.—Which was charged to you, for four months. After that he went into the head office, where he got the same salary for two years, or rather for two years the head office paid him the $40 a month; in 1897 he got $50 a month; in 1898 he got $54.60 a month and then in December, 1898 he acquired the half-interest in this large sum for commissions? A.—Yes.

Q.—Then the net result of your taking office as president and your son as general manager, both of you having been remunerated by commissions altogether in the past, was to add to what was received by yourself and your family those two sums, $26,000 to what you had been previously earning from the company? A.—Yes, but general manager before? A.—Then we took up the additional duties.

Q.—Yes, you took up the duty of president and he of assistant general manager. Who had been assistant general manager before? A.—There had been no assistant general manager before.

Q.—Do you remember what Mr. Ranmsay had been receiving as general manager and president A.—He had been receiving $20,000.

Q.—What did he receive after your son commenced to be paid? A.—$20,000.

Q.—And then when he retired, he retired with an annuity? A.—With $12,000 a year.

Q.—For life? A.—Yes.

Q.—Then your salary for 1901 was again $20.000 and since that it has been $15,000? A.—My salary was made $20,000 when I was made president and general manager, with the understanding that that amount would be divided between myself and the assistant general manager in any way that we decided between ourselves, and $5,000 came off my salary and went on his salary, which had in the meantime been increased to $7,500; with the $5,000 of my salary he got $12,500 and I got $15,000, which made $27,500 for the president and general manager, and the assistant general manager, an increase of $7,500 more than Mr. Ramsay was getting for the same work, but in the meantime the work had very largely increased and the business of the company had been very much extended.

Q.—Then in 1903 your son was raised to $15,000? A.—Yes.

Q.—He received that during 1903 and 1904 and in 1905 he was raised to $20,000? A.—Yes.

Q.—You were still receiving $16,000? A.—Yes.

(Statement of salaries paid to President and General Manager, etc., filed as Exhibit 191.)

(At 4.45 adjourned to 10.30 on Tuesday the 5th day of June, 1906.)

THIRTY-FIFTH DAY.

MORNING SESSION.

Toronto, Tuesday, June 5th, 1906.

Examination of Hon. George A. Cox continued:

MR. SHEPLEY: Q.—You have handed me a statement which you desire to make about something you said yesterday; there can be no objection to your making it that I can see at all? A.—In connection with my evidence yesterday afternoon wherein I referred to Mr. Bradshaw's financial condition, in justice to Mr. Bradshaw I desire to state that my allusion to him had no foundation other than the fact that I had Mr. Ames' position in my mind, and as he and Mr. Bradshaw were jointly interested in the agreement, I, without thinking, made the reference to Mr. Bradshaw. I want to make this in justice to Mr. Bradshaw.

Q.—As I understand you do not intend to modify what you said yesterday with regard to the motives which influenced you in dealing generously with Mr. Ames and Mr. Bradshaw? A.—Yes, sir, that is quite correct. I had already purchased Mr. Ames' interest, and so it could not have been for the purpose of getting control. I already had that. Mr. Bradshaw, I may say, is a very valuable officer, stands very high in his profession, and I was very anxious to retain his services and the amount that was paid to him in excess of what he paid for his stock averaged over the ten years' service he has given to the company at such a low salary as

a new company would have been able to pay, would only make a fair average through the whole term.

Q.—So that you were not personally responsible for his salary, it was the company that was responsible for that? A.—I was not responsible, but a new company could not afford to pay a salary that a man with his qualifications should have.

Q.—We were discussing last night the question of salaries and commissions, and I was about to ask you when the time came for adjournment, whether there is any personal interest in you or any of your family in respect of the branch agencies or any of them? A.—There is none now, whatever, other than the manager of the Eastern Ontario Branch, but with reference to that at first I told you yesterday that I paid to my eldest son who retired from that position $40,000 out of my own pocket, and that I gave that to hand that business over to my younger son, who is now the manager of that branch. That was upon condition that for a time he divide that commission with his mother, which he did up to the time of her death in 1905. That is the only case, and as I say I regard that as my property.

Q.—You regarded that as a vested interest? A.—Yes.

Q.—There is an agency as to which we have been furnished with some information, and I must therefore ask you about it, the Ottawa Agency? A.—Yes, sir, I can explain that.

Q.—Tell me about it? A.—Mr. Haycock, who is the manager of that branch, and who has been for very many years, on the same conditions as other officers of the same nature, nearly ten years ago got, I fancy, behind in his finances—I do not want to say this to do him any injury, but at any rate he made an arrangement with a Mr. Brophy of Ottawa whereby he got from him a loan of nine or ten thousand dollars, and agreed to give him a one-half interest in his total earnings.

Q.—That is the earnings of the local branch? A.—Yes.

Q.—That would be in the commissions? A.—Well, his total earnings, because he has some fire agencies and loaning agencies and so on. He had gone on doing that without reporting it to the company, and without me knowing anything of it for about three years, and then Mr. Brophy, I think, wanted some acknowledgment from the company that he was really a joint agent there, and when Mr. Haycock spoke to me about it I said it was quite impossible to permit a transaction of that kind. Mr. Brophy was not a person who was giving any service to the company or of any advantage to the agency, and I said If you want a partner you must get some person that will be satisfactory to the company, and will assist you in your business. However, he had obtained his money from Mr. Brophy and he was in a very awkward position, and I advised him to organize a company which he would call R. H. Haycock & Son, Limited, and make the capitalization $40,000. We took $20,000 of the stock of this capitalized company of $40,000, put it in the Bank of Commerce and borrowed on it on my guarantee $15,000 for the purpose of re-paying Mr. Brophy and assisting Mr. Haycock with some further money which he really required at the time. One half of the commissions went to Mr. Haycock directly and the other half went to the reduction of that $15,000 advanced from the Bank of Commerce. That went on until perhaps——

Q.—The $15,000 you say was advanced? A.—Yes, to pay Mr. Brophy and to provide Mr. Haycock with some additional funds. It went on for some four or five years and was gradually reduced to about eight or nine thousand dollars. Again Mr. Haycock found it necessary to get some further assistance, and the amount was transferred here and again put up to $15,000 and the balance given to him to take it up to that, and that same process is going on, and the loan now stands or whatever you like to call it, at $9,000, and if that loan was paid off Mr. Haycock would have the whole of his stock and the whole of his business.

Q.—What you say is the form the transaction took was that half the stock was subscribed for and pledged for the loan? A.—Yes, sir.

Q.—And that stock stands there as a security until he pays whatever is due upon the loan? A.—Yes, and then it goes back to him.

Q.—Otherwise than in the way you have stated have you any interest in the commissions of that branch? A.—No sir, none whatever or in any other branch. Mr. Watt draws my attention to the fact that I have spoken of it as though it was the company that did this; it was the Eastern Ontario Branch, and the loan from the Bank of Commerce was upon my personal guarantee. I wrote a letter to the Manager of the Bank guaranteeing the payment of it.

Q.—That is the way I have been treating it, as a matter of your own

35th day, June 5th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

rather than a matter of the Canada Life? A.—That is quite correct.

Q.—And that is manifestly the object with which the question was put to you? A.—Yes sir.

Q.—Is there any other local branch in which in any shape or form you or any member of your family has any interest in the commission? A. —No sir, there is the Peterboro branch, which is one of the branches of the Eastern Ontario Branch, and they report the same as Belleville or Brockville or Ottawa or any other place, to Toronto.

Q.—Do you get any toll out of the revenues of that local branch at Peterboro? A.—No, I do not. There is a nephew of mine there gets $50 a month and commission.

Q.—That is paid out of the local— A.—Just the same as any other local agent of the Eastern Ontario Branch. There is another nephew of mine at a salary of $1,200, I think it is in the Ohio branch at Cleveland. Those are the only members of the Cox family that I know of.

Q.—Outside of your sons? A.—Outside of my sons, those that have been already mentioned.

Q.—Then there was for a time a company in connection with the Eastern Ontario Branch? A.—Yes sir.

Q.—Will you be good enough to tell us about that? A.—The idea and object I had in doing that was, a Mr. Bailey, who was for some years connected with the company, a bright, capable young man, who had been the accountant in the Detroit office, came here to join my son in the eastern Ontario branch, and I advised

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Q.—When you say your son you mean your son H. C. Cox? A.—Yes. I advised the formation of a company called Cox & Bailey so as to give him a better standing with the agents and others whom he would visit. We started, I think, his salary at $4,000 a year paid by the branch, and my intention was if he had remained that he would become a partner in the business, not to the extent of a full half, but to the extent of such proportion as we would feel warranted in giving him, and that might be increased from time to time as the business increased and as his services became more valuable. His brother who had been an officer in the Central Canada Loan Company for some years retired from that position and started a bond business, and his brother J. W. Bailey who was in the Canada Life joined him, and he went out, and consequently the organization was not kept up, but went directly to the present manager H. C. Cox.

Q.—Then, as I understand you to say with regard to that, while there was in form and in fact a company yet he had not any interest in the capital stock of that company but was there upon a salary? A.—Yes sir.

Q.—I suppose he had some shares? A.—He had some shares, qualifying shares, and he would have had by this time or very soon after he left—he knew that too, but he had a more attractive field in the other business and he left—

Q.—Upon making enquiries it seems we were not quite accurate yesterday in taking it for granted that you had got rid of the Sao Paulo stock at the time of the loan made by the Canada Life Company upon Sao Paulo? A.—The papers made a mistake in calling it stock in the place of bonds; speak of it as bonds, because it was bonds.

Q.—And I should have said purchase instead of loan? A.—Will you allow Mr. Morrow to answer?

MR. SHEPLEY: Yes.

The following answers are given by Mr. Morrow until a change is indicated:

MR. MORROW: Mr. Cox was one of the underwriters of the Sao Paulo Company when it was formed in 1899 and 1900.

Q.—Who were the other underwriters? A.—I could not say offhand.

Q.—The Central Canada and Mr. Wood, I understand? A.—No, no; William Mackenzie and all the people interested in the Sao Paulo Company.

Q.—That was subsequent? A.—Mr. Cox's underwriting, it was all taken in his name, but it was divided up with Mr. Wood and the Central Canada and various other people in the usual way. Mr. Cox's underwriting was reduced to a comparatively small amount almost immediately. The balance of his bonds were sold with a stock bonus equivalent to the market price at that time, and just in the ordinary way, so that by the end——

Q.—The original bond issue was five millions of dollars? A.—Yes.

Q.—Of which the underwriting was only applicable to three millions? A. —Yes.

Q.—There were three millions of bonds, and stock to an equivalent amount? A.—Yes.

Q.—That was the subject of the underwriting? A.—Yes.

Q.—Mr. Cox disposed of his bonds and some of the stock? A.—Yes.

Q.—Did he dispose of all the bonds that fell to him in the underwriting? A.—He disposed of all his bonds by the end of 1900, and the balance of his stock which he had left over as stock bonus, because you see he did not sell it all on the ground-floor basis, he disposed of it by May, 1902.

Q.—All the stock was gone by that time? A.—Yes, except a sufficient number of shares to qualify him.

Q.—That is, he retained how many shares? A.—I don't know off-hand, probably one or two hundred, but the balance, which was quite a large amount, were disposed of in 1902, so that both all his bonds and all his stock were sold and disposed of two or three years prior to the Canada Life's purchase.

Q.—Tell me what was done with respect to the remaining two millions of bonds; there was underwriting about that, too, was not there? A.—Yes, it is quite a long story; the Canada Life or Central Canada had nothing to do with that in a sense.

Q.—Mr. Cox had? A.—Well, no; Mr. Cox was one of the guarantors of a loan negotiated through the National Trust Company as trustees.

Q.—That is what I want you to tell me about; there were two millions of bonds capable of being issued? A.—Yes, and the Sao Paulo Company found that the three millions which they had underwritten would not be sufficient for their purpose, they were overdrawn in the bank, and they wanted to get a loan of a million dollars. They went to the National Trust Company and asked them if they would negotiate a loan on behalf of the Sao Paulo Company, in which capacity the National Trust were only acting as Trustees. They arranged a loan of a million dollars on two millions of bonds, with the additional guarantee of the original promoters of the Sao Paulo Company.

Q.—Who was the ostensible guarantor to the lender—the National Trust Company? A.—Yes; all those documents you have in your possession.

Q.—Who were the guarantors behind the National Trust Company—was Mr. Cox one of them? A.—Yes, sir, William Mackenzie and all those who were the original promoters and largely interested in the Sao Paulo Company.

Q.—About that loan guaranteed by the National Trust Company which had these gentlemen behind it, was that loan out of existence, had that been paid off or not before the purchase of the bonds by the Canada Life? A.—All paid off.

Q.—Before the purchase by the Canada Life? A.—Yes.

Q.—You say that is so? A.—Yes.

Q.—Have you—— A.—There is a document there that will show that.

Q.—What was the source out of which that loan guaranteed by the National Trust Company was put off, was it paid off by the proceeds of other loans? A.—It was paid off partly by the surplus earnings of the Sao Paulo Company, which was doing a good business at the time, and partly by the sale of their securities at a later date when they could receive more for their securities; it was thought it would not be good business for the Sao Paulo Company to sell their bonds at the early date when the loan was first made, for the simple reason that there was not much market for them, especially without stock, and later on they sold them at a good price.

Q.—Give me the date of the loan that was guaranteed in the first place by the National Trust Company? A.—If you like I will read this paper.

Q.—No, tell me the date? A.—The end of December, 1900; that was the first loan of a million dollars.

Q.—That was December, 1900? A.—Yes.

Q.—That was the loan guaranteed by the National Trust Company? A.—Yes, sir.

Q.—You say that was all paid off in the first place by the date 1904? A.—Yes, sir.

Q.—It was partly paid out of surplus earnings of the road itself? A.—Yes.

Q.—And partly paid out of the proceeds of the sales of these two millions of bonds? A.—Yes.

Q.—And out of these two millions of bonds the Canada Life became the purchaser of the amount we are speaking about? A.—Not at that time, they became the purchaser of part of those two millions of bonds in 1904 in the ordinary way. The Sao Paulo Company sold some of those bonds to various brokers, and the Dominion Securities was a purchaser of part of those, the Dominion Securities purchased, I think, half a million of them in August, 1904, and the Canada Life purchased most of their bonds during 1904, in fact purchased all their two hundred and fifty thousand later on in 1904, that is four years after the first transaction. and just before the bonds and stocks were listed on the London Exchange. After that the bonds went up to 95.

35th day, June 5th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—I take it from what you have told me, Mr. Morrow, that the final payment of all that was due in respect of loans upon these bonds did not take place till the Dominion Securities Company stepped in and did what you have told us was done? A.—I think that loan had been paid off about a year before that, but the Sao Paulo Company—

Q.—Just find out how it is before putting it? A.—The first loan was for a million dollars and ran for a year; the second renewal was for $750,000, $250,000 of which was paid off. The first loan matured in December, 1901, the second loan was made for $750,000 and matured 31st December, 1902, and in 1903 the loan was reduced to $500,000, and the following year was paid off——

Q.—In 1903 the loan was reduced to $500,000? A.—Yes.

Q.—And that is what was paid by the Dominion Securities Company? A. —No, it was reduced to $500,000 no doubt from the earnings of the Sao Paulo, and the balance, $500,000, was no doubt paid off by various sales made of the bonds of the Sao Paulo either to the Dominion Securities or other brokers.

Q.—And the inference is the transaction of the Dominion Securities Company was necessary for the purpose of cleaning up that loan? A.—No, I would not say that; I would say it was necessary, the sale of the bonds to the Dominion Securities or anybody else.

Q.—As a matter of fact the Dominion Securities got $500,000 of them? A.—Yes.

Q.—Out of which the Canada Life purchase was made? A.—Yes. I would like to say as far as the sale to the Canada Life was concerned they got those bonds at a slightly reduced price, and were very anxious to get them. We knew these bonds were going to be listed in London.

Q.—We have heard that before? A.—Very well.

The following answers are given by Mr. Cox until a change is indicated:

Q.—This is a statement which I desire to put in, which is furnished by your company; it is an illustration of the growth of funds; I just want you to verify it; you can ask Mr. Sanderson if that is authentic? A.—Yes.

Statement illustrating growth of funds referred to filed as Exhibit 192.

Q.—Mr. Sanderson has given me this morning, and I am not going to question you about that, I am reserving the questions for him, a memorandum on the change of the reserve basis, just authenticate that and put it in for the present? A.—Yes.

Memorandum re change of reserve basis marked as Exhibit 193.

Q.—There are some accounts which I desire to make enquiry into, and I understand that Mr. Sanderson can tell me more about those than you can, if so I want to have you say so and then I will reserve it, the capital reserve fund, investment reserve account and the contingent accout? A.—Mr. Sanderson can give you that more correctly than I can.

Q.—Then with regard to the statement you desired to make yesterday upon Dominion Coal. I am quite content that that should go in; it is, I think, as far as it goes quite accurate. Do you desire to read it or shall we just put it in? A.—Just as you like.

Q.—I have no choice about it at all, I thought you desired to read it? A.—Very well, I will read it.

Mr. Cox read the statement referred to re Dominion Coal. The statement was filed as Exhibit 194.

Q.—It is not perhaps unfair to describe the transaction in which the gentlemen who were buying the stock were concerned as a speculative transaction, buying in the hope of a rise, and realizing profits A. There never was a time when the stock sold on the market beyond its intrinsic value; that is my judgment, and any person who is familiar with the property I think will say that.

Q.—There are some loans I want to ask you about, and the first is a loan to Mr. Ames' firm. I see in the statement which has been furnished us, on the 31st December, 1901— A.—Will you allow Mr. Watt to answer these?

Q.—Yes. On the 31st December, 1901, there was a balance of $120,865 due against certain securities.

The questions are answered by Mr. Watt until a change is indicated? A. —Yes.

Q.—During the year 1902 there was an advance of further sums aggregating $661,586.08? A.—In the whole year.

Q.—That made a total of $782,451.08? A.—I would just like to say that the total loan at any time was $505,000; that was the maximum amount at any time; you see that by the ledger.

Q.—Moneys to that extent were ad-

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

vanced through the year from time to time? A.—Yes.

Q.—Among the securities held were 1,040 shares of Sao Paulo and 1,800 shares of Metropolitan Bank? A.—Yes.

Q.—There was a transaction with respect to those on the 31st December, 1902? A.—Yes.

Q.—What was that? A.—At the time the loan on the Metropolitan Bank stock was made, it would be in October, 1902, we agreed with Mr. Ames that the advance on Metropolitan Bank stock would have to be repaid us before the end of the year, as we would probably require the funds, so on the 31st December the loan was called up.

Q.—And Mr. Ames gave you a cheque I suppose? A.—Yes sir.

Q.—And the share were released? A.—Yes, re-transferred.

Q.—And the Sao Paulo were also released on the 31st December? A.—Transferred to him.

Q.—The loan was originally made in October on the security of both these stocks, do you say? A.—On the 24th October we released 1,800 shares of Dominion Coal, taking 3,000 Metropolitan Bank and 340 Sao Paulo—you said 1,040.

Q.—Yes, there were 700 shares besides? A.—Oh yes, that is right.

Q.—What was the date of the 700 getting into your hands? A.—That would be on the 15th November.

Q.—Was there a specific advance made in respect of it? A.—Yes, there was, $49,000.

Q.—You say a cheque was given to you on the 31st December, and these two stocks, the 1,040 Sao Paulo and the 1,800 Metropolitan were released and handed over? A.—Yes.

Q.—You perhaps know he raised the money by giving a note to the Canadian Bank of Commerce? A.—I do not know that.

Q.—You have not familiarized yourself with that transaction? A.—No, we got his cheque for the amount.

Q.—Then what took place in January? A.—The money was re-advanced to him on the 2nd January, 1903, and gradually reduced after that.

Q.—The money was re-advanced, and the share got back into your possession? A.—Yes.

Q.—Can you ascertain from any book you have here what the fact is, whether or not this took place, that the Canada Life paid the note in the Bank of Commerce which Mr. Ames had given, and two days' interest upon it? A.—No sir, I am sure we did not pay any interest. That day Mr. Ames discounted his note with the bank we got Mr. Ames' cheque.

Q.—On the 2nd January how did you make the advance? A.—We probably issued a cheque to Ames & Company.

Q.—I wish you would see if you cannot agree with the statement that we have had given us, that you took up the note in the Bank of Commerce which Mr. Ames had given for the purpose of raising the money to pay you on the 31st December? A.—Our cheque was drawn on the Canadian Bank of Commerce for $389,500 it shows here, Canadian Bank of Commerce cheque number 2,734; it does not show to whom it was payable.

Q.—That I should like to have ascertained, and I want your evidence supplemented in that respect; will you ascertain whether the information I have is correct? A.—I will find that out.

Q.—Was the amount of that cheque the same as the cheque which you have as paying you on the 31st December? A.—Identically the same, so that there was no interest paid by us at all.

Q.—So far as your book there shows, I want to find out what the fact was with regard to that? A.—It would be included in this cheque if we had paid the interest on it.

Q.—One would think so, but my information with regard to that is very specific, I want to have it either corroborated or shown to be wrong; do you know why the transaction took place in that shape on the 31st December and on the 2nd January? A.—As I said, Mr. Shepley, that when the loan was made in October, on the 24th October it was arranged with Mr. Ames at that time that it would be repaid to us or the greater portion of it before the end of the year.

Q.—And was it also arranged it would be re-advanced on the first of the following year? A.—Not necessarily because we had hoped before the end of the year the loan or the greater portion of it would have been re-paid.

Q.—Let me ask you this, at the time on the 31st December when the $389,000 was paid and the stocks released, was it understood between you and Mr. Ames that on the 2nd January the transaction should be put on foot again? A.—If he found he would require the money on the 2nd January.

Q.—And he found that he did. Then he must have known on the 31st December that he would want

the money on the 2nd of January, would you not say? A.—Not if he could get the money anywhere else, because on the 12th January he started to make repayments to us, so that he had in view the gradual reduction of the loan.

Q.—Do you remember about it, Mr. Watt? Was the transaction with you? A.—Yes sir, it was.

Q.—Don't you remember any more about it than you have told me? A. —There was nothing more to it, Mr. Shepley.

Q.—Do you say? Why take the money from him on the 31st December and give it back to him on the 2nd of January? A.—As I said, it was in pursuance of an understanding made with him in October that the money should be repaid. It was not for the sake of getting rid of the securities, because we were quite content to carry those securities at any time. We had other securities of the same kind in our books. It was not with the object of not showing these securities in the Government Report at all because we had others of the same kind.

Q.—The result of the transaction was that these securities disappeared from your returns on the 31st December and reappeared in your books on the 2nd January? A.—Certainly.

Q.—Then one of the loans on Dominion Coal, in the list yesterday? A.—Which loan is that, sir?

Q.—It is in two parts. There was one loan of $11,000 on the 31st of March, 1903, to Mr. Bradshaw, on Dominion Coal. Were you there in 1902, when did you go to the Canada Life? A.—The 1st of January, 1900.

Q.—Then there was a loan on the 2nd of May of $50,000 and a loan on the 16th of June of $33,250, all to Mr. Bradshaw, on the security of Dominion Coal? A.—The 2nd of March the first one was.

Q.—The 31st of March is the date given here? A.—Of the second one.

Q.—That you say should be the 2nd of March? A.—Yes.

Q.—Then it is wrong in the account you have given me; I will put that the 2nd of March. The 2nd March was the first, 31st March the 2nd and 16th June was the 3rd. Then there was two loans to the Dominion Securities Company that I want to inquire about. $700,000 was advanced on 800 bonds of the Lake Erie and Detroit River Railway Company on the 31st December, 1902? A.—The Dominion Securities Company had bought $3,000,000 of the Lake Erie and Detroit River Railway Bonds, against which we had a loan to Walker & Sons of Walkerville of $900,000. The Dominion Securities Company assumed $700,000 of that $900,000 loan.

Q.—That was the transaction? A. —Yes sir.

Q.—Then you also lent to the Dominion Securities Company, as the transaction appears in this document, $425,000 on the 29th September, 1905, on the security of $500,000 of the bonds of the Lindsay, Bobcaygeon and Pontypool Railway? A.—That was a loan on some bonds that the First Trust and Savings Bank of Chicago had. The Canada Life purchased the bonds subject to that loan and when the loan fell due in September we were not prepared to pay the purchase price of the bonds. We said to the Dominion Securities Company we will at least pay the amount of the loan off and then when we get in funds we will pay up the difference, which was the difference between, I think, 80 cents on the dollar and 96½ cents.

Q.—Then to whom was the $425,000 paid? A.—To the First Trust and Savings Bank of Chicago.

Q.—And the Dominion Securities Company became responsible to you for it? A.—Yes, they were responsible to the First Trust and Savings Bank.

Q.—Their responsibility was then to you in respect of that $425,000 until they made delivery and were paid? A.—They were really our bonds.

Q.—Until they made delivery to you and were paid? A.—Certainly.

MR. COX: The bonds were guaranteed by the Canadian Pacific Railway.

Q.—Yes. Well, then, you lent a considerable sum of money upon Crow's Nest Coal Company stock? (Mr. Watt continues to answer.) A. —I think we had one or two loans.

Q.—You had one loan to Mr. Jaffray of $107,952? A.—That is correct, sir, I believe.

Q.—That was made apparently some time during 1902? A.—Made on the 19th November, 1902; from the 19th to the 29th November, 1902. On 2,100 shares of Crow's Nest Pass Coal Company.

Q.—Then you made a loan in 1902 to the Provident Investment? A.— Yes, that is right.

Q.—$128,400? A.—Yes sir.

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—What is the date of that? A. —$58,400 on the 9th of January, 1902, $70,000 on the 23rd April, 1902.

Q.—That was on the security of what? A.—The $58,400 was on the security of 146 Sao Paulo bonds, par value $73,000. The other was on 700 shares of Dominion Coal at par.

Q.—What further loans did you make during 1903? A.—We made a loan on another 700 shares of Dominion Coal aggregating about $96,000.

Q.—And what else? A.—And on the previous securities, the Sao Paulo bonds and the previous 700 shares of coal.

Q.—What else did you lend during that year A.—That is all.

Q.—Then you made a further advance or advances to the Provident Investment on the dates you have given me, April and June, 1903? A. —That is right, sir.

Q.—237,500 altogether? A.—Yes sir, I have that: $60,000 on the 14th April, 1903. $30,000 on the 2nd of June. $60,000 on the 8th of June and $87,500 on the 15th of June.

Q.—Those are the advances I have here. Now the stocks you held as security for that 615 shares of Metropolitan Bank, 333 shares of The Robert Simpson Company, 200 shares of the Carter-Crume Company and 100 shares of the Dunlop Tyre Company. A.—Preferred Stock

Q.—And 1,250 shares of the Central Canada. Is that right? A.—Yes, the main security being the Central Canada stock. Those others being additional securities.

Q.—My learned friend Mr. Tilley reminds me that the mention of the Dominion Coal in what I am doing now is not in addition to but is contained in what we heard yesterday. A.—Oh no, nothing whatever to do with Dominion Coal.

Q.—Then you have been able, Mr. Watt, since yesterday, to verify that transaction in Dominion Coal. You have brought the brokers' note? A. —I have.

Q.—What do those notes indicate, taking them in order of time? A.—It indicates that on the 18th March we had sold 400 shares of the Dominion Coal and bought 400 shares on the 19th March, 1903.

Q.—That is you sold in advance of your purchase? A.—No, we had at that time 3,000 shares of Coal. We sold on the 18th of March and we were sorry for it the next day and went and bought it back again. We realized that we let go a good thing. The entries are probably a little mixed up on that account there.

Q.—There are the 400 shares on the 4th April? A.—Here is the sale on the 4th. Those brokers' notes would come into our hands on the same day and that one is dated the 18th and one the 19th, but the sale took place first. Then we regretted the sale and bought the stock back again.

Q.—Just give me the totals of those, please. What did you get on the sale? A.—We got $48,650 for the sale of 400 shares. We paid $47,475 for the 400 shares on the following day. There was a profit of $1,175.

Q.—The dates there as they appear in your books are as in this, where the purchase appears first and the sale afterwards? A.—They are both the same date.

Q.—But the order in which the transactions appear in your books the purchase is made before the sale? A.—Well, you will see that evidently the accountant omitted to post this entry. They are on the same date, apparently in each case, but he forgot to post them in the proper order, posting one side of the cash book before the other.

Q.—Then that is all I have to ask you, Mr. Watt. Mr. Cox, just one other matter. In making the loans upon real estate, I forget whether you have already told us that there were occasions upon which endowment policies were taken as collateral? (Mr. Cox answers.) A.—That is done occasionally, yes sir.

Q.—That, you say, would be occasionally so? A.—Yes, sir.

Q.—In connection with these transactions would there be any commissions paid to anybody upon the policies? A.—Yes.

Q.—To whom? A.—To whatever branch the business was done in.

Q.—That would be paid by the Canada Life Company? A.—Ordinary commissions on their business. That is a source of assistance to the agent or manager of the branch where the business is done, where it is sometimes possible to secure a good loan in connection with life insurance or vice versa.

Q.—Do you say those transactions were infrequent or frequent? A.—They are not very frequent, but there are times when a good many loans are made. For instance we very frequently—or I won't say very frequently, but when we are making church loans, and particularly loans to the Roman Catholic Church, they will make that kind of contract, where they take

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

an endowment policy running over a long period of years, and the payment of the insurance premium during the period pays off the loan at the expiration of the period.

Q.—That is more frequent in the case of that class of loan than private borrowers? A.—Yes, more frequent.

Q.—Then do you obtain valuations when you lend upon real estate? A. —Yes sir, always.

Q.—Do you sometimes obtain the valuations from the local agent, who is interested of course, in making the loan? A.—No, we do not. We obtain the valuations by a very careful valuation of the property. For instance it is mostly in connection with the Roman Catholic Church that these loans are made. More in connection with that Church than perhaps all the other loans that are made in that way. But, as you know, when we get the covenant of the Roman Catholic Church, we have the whole property of the diocese, and we never have any question at all about the valuations, they are away in excess of the loans in very many cases. We could tell what was done as to the valuation of any particular loan.

Q.—This is the one I want to ask you about. Mr. Watt tells me it was never carried out. A loan of $19,000 was approved to the Ottawa Produce Company for 5 years at 5½ per cent. payable quarterly, on its cold storage property and plant on Nicholas Street, Ottawa, valued by Mr. Haycock at $40,000 exclusive of plant? A. —That valuation would come in by him, made in that way, but it would be re-valued.

Q.—By some independent person? A. —Yes.

Q.—It goes on to say, the loan to be further secured by personal covenant of the directors with an endowment life insurance policy of $20,000. Mr. Watt tells me that did not go through? A.—No sir.

MR. WATT: For which we were very sorry.

Q.—No doubt. Then it may be possible that I shall want to ask Mr. Cox some questions if anything further turns up but at present I close with him. I understand my learned friend Mr. Hellmuth desires to ask some questions.

By MR. HELLMUTH:

Q.—Among the investments of the Canada Life, Mr. Cox, in the Blue Book for 1904, there are a total of some $2,069,000 of stocks, various stocks held by the company. I will show you the Blue Book. I have not given the odd hundreds? A.—May I ask to have the Treasurer assist me in these matters also? These things are more familiar to him than they are to me.

Q.—Certainly. On page 155 of the Blue Book, the list is set out there of the various stocks? A.—Yes.

Q.—Bank stocks, loan companies stocks, gas light company stocks, telegraph stocks, New Brunswick and Canada Railway stock, C. P. R. Stock, telephone stock, and others. Now, Mr. Cox, do you approve, apart from any Act at all, of a life insurance company being a holder of ordinary stock of various enterprises railways, coal companies, etc., apart altogether from the provisions of any Act, do you approve of that? A.—Well, they have been amongst the most profitable investments of the Canada Life for a great many years. It is a practice that has always been followed by the company and I think in nearly every one of these cases to which you refer the stocks were purchased before I was on the board; at any rate the policy has been a policy of dealing in stocks and one of the most profitable investments that we have had at all is bank stocks. We have pretty large holdings of stock in nearly all of our Canadian banks, and they have all been very profitable to the company, growing steadily in value, and regularly paid dividends, and we regard them as good investments. I know that a different view is taken of that question by the New York Investigating Committee, and I think they have laid down a rule that these stocks shall be sold within a certain time by the companies that are holding them. It would be a serious loss to our company if we had to do the same thing and would, I think, be a reflection upon and an injustice to our banking and other undertakings of that kind. Industrial stocks we do not invest in to any great extent.

Q.—I think you have had Dominion Coal, have you not? A.—Yes, but after all the criticism that has taken place in connection with it, we will sell it, of course.

Q.—I want to know, Senator, whether you think it is a proper thing for an insurance company to be a partner to any extent with its funds in other enterprises such as railways, banks, or others and whether it should with its funds be a partner in these companies?

MR. NESBITT: You are a partner in a farm when you take a mortgage upon it.

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

MR. HELLMUTH: My learned friend can have his question, but I want to know whether you think that is a proper line of investment for the funds of a life insurance company, to take the chance of success or failure with stock companies or in the stock of companies? A.—I think Mr. Hellmuth that that is a question that is a matter of opinion and you cannot deal with it, I think, taking a whole list of stocks that way. If you ask me, is it proper for a life insurance company to invest in that particular stock, I might say I think so, and in that particular stock I might say I think not. I am sure we have a very careful, conservative and intelligent board of directors; if you look over the names of our directorate you will see that they are among the most experienced investors in this country, and any security that passes that Board I think is safe. Now the general question of whether it is proper for a life company to invest in stock of that kind, leads to the next question, what would they invest in if they did not?

Q.—We may come to that, but I would like just to get a little more specific statement in regard to the principle, Senator Cox, please. I want to know your view; I am not asking anybody else's; I am asking your view as to whether you think a life insurance company should be permitted or should take the funds of its policyholders and put any portion of those in the enterprise of various companies where they must necessarily take some risk, a greater risk, of course, than lending on bonds? A.—The experience of our company is that we have sustained more loss on the investment of real estate mortgages than in any other line of investment that we have made, and that would lead one naturally to the conclusion, that bank stocks for instance, would be a proper investment to make. I should say that stocks conservatively selected by an intelligent board of directors would be a safe investment. I would think so. There is a certain degree of risk in any kind of investment you can make in anything. That has been my experience after a good many years.

Q.—You stand to make or lose more by buying stock in an enterprise than you do by lending upon its bonds, the bonds of the same concern? A.—Of the same concern, that is correct. But you might lose money on the bonds of one concern and make money on the stock of another concern.

Q.—Quite so, but what I want to ask you is this, should a life company, take for instance the Dominion Coal, if you like, or any of these railway companies, should a life company invest in the stock of that company in the hope that by the rise of the stock it may make money, rather than invest in the bonds of that company at a guaranteed rate of interest, upon which it can practically lose little or no money beyond the legitimate interest, I want to know as a matter of principle what you think about that? A.—I have no desire whatever to evade the question Mr. Hellmuth, but I think I have answered it as fully as I can. If you take any particular stock, take the Canadian Pacific Railway Company's stock, for instance, I think that a really safe investment.

Q.—It is an investment one would be free to admit, in which the Canada Life has probably made a great deal of money by purchasing at a figure much lower than it now commands in the market. I suppose there is no doubt about that.

MR. WATT: We would have made another $70,000 if we had kept our C. P. R. stock and we would also have had a larger return in dividends. We sold when it was paying 5 per cent. It is now paying 6.

Q.—You might have made a great deal more money than you did, but you made a considerable amount of money in that stock? A.—No, we did not make anything on C. P. R. stock.

MR. WATT: We came out even, Mr. Hellmuth. We bought C. P. R. stock years ago at 90 and held it until it was down to 37 and we sold it at an average of about 105.

Q.—That was a stock you bought at 90, it did go down to 37 and it has gone up to a figure very considerably over 90, about 150 or 160's at least. (Mr. Watt answers until a change is indicated.) A.—In the 170's.

Q.—So that there was a possibility of either making or losing a large amount of money upon stock of that company? A.—No question about that, but the stock was not bought for the possibilities it had.

Q.—But there was that possibility in it? A.—Oh yes.

Q.—And in the bonds of the C.P.R., if they do issue bonds, you would only make the interest guaranteed upon those bonds? A.—They won't let you buy bonds of a railway company until a dividend has been paid.

Q.—If you did buy bonds of a railway company you could make practically nothing but your interest? A.—You would very often make a very large profit on bonds. It depends on

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

the price you buy them at and monetary conditions. You may make more money than if you buy stocks.

Q.—If you bought bonds at a certain figure to net you a certain rate of interest, if those bonds are eventually repaid you must get your principal back with the interest at the rate that you calculated it on? A.—Correct.

Q.—There is no chance of that unless the whole stock of the company is wiped out? A.—Correct.

Q.—You may possibly make something on them by the bonds having gone up, but even if the bonds do go down you lose nothing if you keep them to the maturity period and take the face of the bonds then with the interest at the time? A.—Providing the issuing corporation can redeem them at par. It very often happens that they can not.

Q.—If they could not they would have to wipe out the stock? A.—Certainly.

Q.—So that you have all the stock as a security, that is the wiping of it out before the bond issue can be affected? A.—Yes.

Q.—Then as a matter of actual safeness of investment, not of profit arising from the investment, the bonds of any given company are a safer security than the stock of that company? (Mr. Cox answers.) A.—Yes sir.

(Mr. Cox answers.) A.—Yes sir.

Q.—Then I would ask you, in view of that, if you think that the funds of a life insurance company should take the possibility of winning or losing that exists in so much greater degree in stocks than in bonds. A.—I think, Mr. Hellmuth, that I have answered that as fully as I can.

MR. WATT: May I answer that?

Q.—Certainly, Mr. Watt, I am seeking information. A.—I want to say that if the life insurance companies are limited strictly to investment in bonds and municipal investments, it is bound to increase the cost of insurance, because the rate of interest will be lower. All the life insurance companies will be struggling to get these bonds and to force the price down, that is the interest yield, down. The result is that the cost to the insurer has been increased.

Q.—I understand that, but we will come to the question of cost a little later perhaps. You are not suggesting that you could not get bonds, any quantity, to bring you in something over 3 per cent.? A.—Oh I fancy we could get 3 per cent. easily enough, but where would the policyholder be?

Q.—One moment, I am not going to answer your question at present. You could get something over 3 per cent. A.—Yes.

Q.—And your reserves are now already based on a 3 per cent. table? A.—New business. The rates are fixed.

Q.—And the new business is on a 3 per cent. basis, so that the investment of money at 3 per cent. now would hold your new business perfectly good, for your premiums are based on that? A.—That is an actuarial question.

MR. COX: If all the investments in stocks of all the insurance companies were forced on the market and that money had to be replaced in bonds, Canadian bonds, I question if they could be bought to pay 3 per cent., because there would be a very great demand for them, a very large amount of money that had to be put into them and the price would be forced down so that it would be very doubtful if you could get good bonds to pay 3 if you were confined to Canada in your investments and to bonds.

MR. NESBITT: Wouldn't there be this further little difficulty, Senator, that 9-10ths of the investing community would be ruined? A.—In what?

Q.—Why with the stocks thrown on the market. A.—It would be a very serious matter, no doubt.

Q.—I think Black Friday would be an illuminated Thursday compared to it.

MR. HELLMUTH: Senator, I am not predicting or suggesting any such cataclysm as my learned friend, Mr. Nesbitt, speaks of. I am not asking you as to whether in the future, not dealing with present holdings at all, but as to the future investments of life insurance companies, if they were starting anew on the principle of the investment of the life insurance funds to be put into stocks and become partners in these enterprises? A.—I think that the correct ground from which I can answer that is the experience of the company spread over 59 years. That is a fair basis to take, and our experience spread over the whole history of the company, is that our stocks have been more profitable to us, and our real estate mortgages and other investments have resulted in more loss.

Q.—I quite understand that, they have been more profitable in the past. A.—And safer.

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—You have been successful in your investments? A.—Yes.

Q.—And there was a greater opportunity of making money out of the stocks than there would have been, of course, out of the purchase of bonds, there is no question about that. A.—And all that accrued to the benefit of the policyholders.

Q.—I am not doubting that. In your Annual Report for 1905, the year ending December 31st, there is an item among the liabilities of capital reserve fund $76,734. Can you tell me at all what that item is? There is a dividend paid of $80,000 and then there is this item of something over 76. Perhaps Mr. Sanderson can explain that. A.—The profits, as you are aware, Mr. Hellmuth, are divided in the proportion of 90 per cent., the divisible surplus is divided in the proportion of 90 per per cent. to the policyholders and 10 per cent. to the shareholders. Now, at each quinquennial division of profits when the surplus is made up, the 10 per cent. is carried to the credit of the shareholders reserve fund, and that $76,000 is accounted for in that way. Now the interest on the capital itself on that $76,000 is the money out of which the next dividend to the shareholders is paid. There is a separate account kept as between the shareholders and the policyholders, 90 per cent. going to the credit of the policyholders and 10 per cent. to the credit of the shareholders. The policyholders get their surplus divided between them, amongst the policyholders every 5 years, or now as I explained yesterday, every policy has its own quinquennial period, but for a great many years there will be one year out of every five where the amount to be divided will be larger because all the policies issued up to 1900 have the same quinquennial period.

Q.—Would that $76,000 disappear year by year as the dividends were paid to the stockholders? A.—Yes sir.

Q.—Would it be drawn upon? A.—It would be drawn upon. Yes.

Q.—And at the end of the next quinquennial period? A.—It would be added to.

Q.—The whole of that would be gone and something else would be substituted in its place? A.—There will be each year, now, from this on a small addition. 10 per cent. of whatever is divided amongst the policyholders, will go to the credit of the shareholders, and as I say 4 years out of every five that amount will be necessarily small each year, but in the 5th year it will be larger because of the fact that at that period here is a larger number of policies participating in the profits.

Q.—That is to say that you do not necessarily require that in any year in the middle of a quinquennial period the amount earned should justify the payment of 10 per cent. as long as you have some of this reserve to draw upon? A.—Yes.

Q.—That would be right, I suppose? A.—Yes, we have paid since 1900 an 8 per cent. dividend and it might occur that in order to pay that dividend the shareholders would anticipate their portion of the 5 year dividend that is being earned and that won't go to their credit until the end of that quinquennial period.

Q.—Then there is not at the end of each year, say 1902, for instance, because that would be between, there is not a making up of the accounts exactly of that year, a profit and loss statement, so as to see whether the 10 per cent earned for the shareholders in that year would justify the $80,000 as long as you can take it from the other. A.—We know very closely, but there is not an actual stocktaking until the end of the quinquennial period, but now it will have to be on every year.

Q.—You do not, Mr. Cox, as I understand it, make up or publish to your shareholders or the public what might be called a profit and loss statement of the business of each year? A.—We do not do that, no. We do each five years.

Q.—You do that in the quinquennium? A.—Yes.

Q.—But it is not, as in many financial institutions, with which, of course, you are quite familiar, a carrying forward each year of the surplus of the previous year and then the making up of a statement of that year's business showing what the actual gain was over that year? A.—That is done, as I say, once in 5 years. The labour entailed by that is very considerable because it means a valuation of every policy to know just what our liability is on each individual policy.

Q.—You have to do that. I understand, every year now for the Minnesota State Report? A.—Yes.

Q.—So that from 1900, 1901 perhaps being the first year, you have made up for Minnesota an annual pro-

fit and loss statement? A.—We have done that, I think, ever since we have been doing business in that State.

Q.—And that is published in the Minnesota State Reports, is it not? A.—May I call the actuary, Mr. Sanderson, again?

Q.—Oh certainly, this is the preliminary report for this year? (Mr. Sanderson answers until a change is indicated.) A.—I have not seen it.

Q.—Then we are highly favored. I am going to put in a copy of this, if I may, Mr. Shepley?

MR. SHEPLEY: By all means. (Exhibit 195.)

MR. HELLMUTH: This is the preliminary life report by the State of Minnesota for the year ending December 31st, 1905. You are familiar with the form of report, Senator Cox, since 1901, I mean that there have to be returns made for that report?

MR. COX: Yes.

Q.—May I ask why the annual profit and loss statement furnished to Minnesota was not also furnished to the Canadian shareholders in the annual reports?

MR. SANDERSON: May I answer that?

Q.—Yes? A.—This Exhibit is required by the Minnesota Department. It is not required by the Ottawa Department. It is not part of the returns. It is made only to the Government requiring it.

Q.—That is not my question. I asked why a profit and loss statement which shows a supposed gain for the year is not published to the shareholders, not necessarily to Ottawa, but to the shareholders of the Canada Life or the public? A.—I don't think it is sent to the shareholders of any of the companies, or that any of the companies make it up.

Q.—But it does show accurately just what each year's business has gained, I won't say lost, because that would be a very improper word to use, but what has been the gain on that year's business? A.—There is a vast difference of opinion, Mr. Hellmuth, as to the virtue of this gain and loss Exhibit.

Q.—There is a difference of opinion; Minnesota insists upon it, however. A.—Yes, actuaries differ about it.

MR. COX: If this Royal Commission recommended that amendment to the Insurance Department, it would no doubt be adopted.

Q.—As Mr. Shepley has pointed out to me, it is practically almost the same as the gain and loss Exhibit that the Dominion Counsel have required from each of the companies for the year 1905, which the Commissioners have had before them, it is very much like that.

MR. SANDERSON: Very much the same, yes sir.

Q.—Can you answer, Senator Cox, what would be the objection to publishing such a statement for the perusal and consideration of the shareholders of the company or for the public seeing it, what would be the objection? A.—I don't see any objection whatever.

MR .SANDERSON: May I answer that?

MR. HELLMUTH: No, because as Mr. Tilley has pointed out, you will have an opportunity of answering that when you come into the box. I do not want to anticipate. I only want to know if the Senator sees any objection to the shareholders and the public having that information? (Mr. Cox answers.) A.—I do not know of any reason why the public should not have the fullest possible information on every detail of this company anyway.

Q.—In that report there are some very interesting—to the policyholder perhaps—items of information in regard to expense and in regard to loading, which I think appear in no other report. In this report, Exhibit 195, I see that the first item of insurance expense for the Canada Life is, loading expense portion of premium $555,000. I am leaving out the odd hundreds. Whereas the actual expenses paid were $899,000, a difference there of $343,000 in the cost of the business outside of investments, for that does not include investment expenses, the cost of the business first year and renewals. Did that strike you as excessive? A.—No, it did not.

Q.—The difference is $343,000. I again leave out the hundreds? A.—I had not seen this, of course, but I know what our expense ratio is.

Q.—You probably have a pretty good idea, Senator, of how much your expense had exceeded your loading? A.—Yes.

Q.—And you say that did not strike you as at all extraordinary? A.—It did not strike me as unreasonable, the expense ratio of our company all through, considering what we have been doing, but upon that point I am quite willing to learn and to answer questions.

Q.—We are learning, you are teaching. I asked you whether that does not strike you as extraordinary, because it is an increasing factor; taking the Minnesota Report for 1904, the ex-

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

cess of expense over loading was $307,000 as against the $343,000. Then going back to 1903 it was only $288,000. In 1902 it was $208,000, and in 1901 it was only an excess of $18,000, so that you have been gradually creeping up on that expense? A.—In 1907 we could put it $300,000 on the other side of the balance sheet by stopping new business and just collecting our renewals.

Q.—Let me understand that, because I would like to gather information on this point? I understood you to say to Mr. Shepley that the cost of the new business, the necessary push that has to be used now in the competition for new business very materially increases expenses? A.—Yes.

Q.—And that one of the reasons why the percentage of expense ratio to premium income in the larger American and English companies is less than the Canadian, is because they had a great deal more of old business on the books and the ratio of old business to new was so much larger? A.—Yes, the ratio of old to new business.

Q.—Now the Canada Life is every day growing older and its proportion of old business to new ought to be growing every day greater? A.—In the figures that you gave, the comparison from $18,000 in 1901 and $300,000 some odd now, the new business in 1901 I think was about 4 millions of dollars, speaking from memory. In 1905, the year you speak of there, it was 12 millions five hundred thousand dollars, paid up business. That explains the difference in the figures, and if we had made it 15 or 18 millions the expense ratio would have been still higher. If on the other hand we had made it 2 millions it would have been very much lower.

Q.—I don't think that will quite explain it, with all due deference to your knowledge of these matters, because you have the old business of 1902 on which your excess had been 208, the old business of 1903 with an excess, the old business of 1904, all of which had been got at an excess cost? A.—It had not increased to the same extent that the new business has increased. If you increase the new business from 4 to 12 millions then you have got a very much larger amount of new business to pay for while the increase in the old business is not in proportion to that at all.

Q.—But, Mr. Cox, surely your ratio of old business to new was greater in 1905 than it was in 1904, isn't that so? Unless you are going behind? A.—No, I don't think it would be greater. I think the increase of our new business is in far greater proportion.

Q.—I am quite willing to take that, but you started, we will say with 40 or 50 millions of old business, and you wrote in the next year 10 millions of new; then you have, allowing for lapses, we will say, 57 millions of old business to start with; next year you write 12 or 15 more, all the time your old business is becoming greater in volume, isn't that so? As compared with the new? A.—Yes, but there are so many elements to come in. If we increase our new business say 3 millions, in Canada, where we have our plant all ready, already organized, our organization complete, that would not cost us so much as going into an entirely new field like the United Kingdom and building up our business there. We have been working here all the years of the company on a population of 5 millions. Now we want to reach out into a larger field, to cover the Empire if we can.

Q.—Would it be your hope to write more new business next year than you did last? A.—That will depend altogether upon the findings of this Honourable Commission.

Q.—Leaving that out for the moment and supposing we had no Commission here at all, would you expect with the progression of your company to write more new business in 1906 than you wrote in 1905, naturally? A.—I have been hopeful enough to hope to see the day when we would be writing 50 million of business in the year.

Q.—Each year then you would expect to write more business than the year before? A.—That would depend on the organization we kept up.

Q.—But that would be your hope? A.—I would hope to, naturally.

Q.—Would your excess of expense go up, would the sum of 343 reach 5, 6, 700 or perhaps a million with the new business, because that would be a very dangerous thing, it would seem to me? A.—To increase the business?

Q.—Yes, if it is at the expense of making the expenses so much greater than the loading? A.—It makes the expenses temporarily larger.

Q.—When is the temporary condition to cease? A.—When you stop extending your new business.

Q.—So that there must be a stage in these companies when you would look to the stoppage of the extension of new business? A.—I don't mean the stoppage altogether, but to stop increasing, to stop extending.

Q.—Is there any company that has

ever reached or thinks it has reached that stage? A.—No, I don't think there is.

Q.—So that for all practical purposes we can consider that the Canada Life in conjunction with other companies, will strive to increase its business even at the expense of increasing the amount that is required over loading to meet these expenses, you must go on making that sum larger and larger? A.—There have been cases where companies have stopped growing and died.

Q.—This company is going to live, but it will be a very costly life, won't it? A.—We don't think so. That is a point on which there is an honest difference of opinion. The gentleman who stands beside me here and myself do not agree upon that point.

Q.—Then I won't let him contaminate you, Senator? A.—He is with you, evidently. He wants to go slow. I think you and he would get along better than you and I.

Q.—Then, perhaps, I will say that you must not contaminate him? A.—If you will permit me to make this statement, it will correct the figures I gave you a few minutes ago. The ratio of new business to old was in 1898, 6.5; in 1899, 7.4; in 1900, 8.6; in 1901, 9.2; in 1902, 10.4.

Q.—May I ask you to stop for a moment? A.—I will put this in.

Q.—I would like to have that, yes? A.—In 1903, 11.9; in 1904, 12.4; and in 1905, 13.7. Now, the new business went up during these years:—$4,623,000; $5,529,000; $6,397,000; $7,078,000; $8,398,000; $10,122,000; $11,211,000; $13,014,000 the last year, so there has been a steady growth of business.

Q.—But in 1901 when the ratio of new to old was 9.2, the excess in loading was only $18,000. Can you account for that? I mean, the excess of loading has been very much greater in some years when the proportion of new to old has been less. For instance in 1902 with an increased proportion from 9.2 to 10.4, the increased loading jumped from 18 to 208, that would seem somewhat large, that proportion, unless there was some new field open or something that would require special expense.

MR. SANDERSON: It was a period during which the company was rapidly extending.

Q.—But that would hardly account for the difference between 18 and 208, when the difference of the next year, when it increased from 10.4 to 11.9, which was a greater increase, with only a difference of from 208 to 288, or some $80,000.

MR. SANDERSON: I think I ought to say there that that whole comparison of those various companies is in my judgment all wrong. You have to take into account the valuation basis of the various companies. The comparison as between companies is not fair.

Q.—I am not making a comparison between companies at all, but between your own company's different years.

(MR. SANDERSON continues to answer.)

A.—We will have to look into our own valuation basis.

Q.—I would like to put that statement in. (Exhibit 196.) Of course the Minnesota Reports all come from your own valuation basis? A.—Yes.

Q.—I mean nobody is responsible but yourself for the statement in the Minnesota reports in regard to these figures I have given. A.—Quite so.

Q.—Now, Senator Cox, you handed in the other day Exhibit 186, which purported to give the net premium income not only of your own company but practically of all the Canadian companies, with the total income, the general expense and the ratio of the general expense both to premium and total income. A.—That is a statement prepared in the actuaries' department.

MR. SANDERSON: We did not put it in as an Exhibit. We produced it.

MR. HELLMUTH: It went in as an Exhibit. Did you look into this at all?

MR. COX: I did not.

Q.—I would like you to look at the first item because it did not seem to me in looking over it that it was quite as—I won't say accurate—but quite as ingenious as it ought to be in taking into account there an item of $804,000 as premium income not so shown in your own statement and which would very materially alter the ratio.

MR. SANDERSON: That is quite true, and when I handed the statement to Mr. Shepley I said that I did not claim that was a fair comparison.

Q.—That is what I thought. I am not interested in any of these other companies any more than in the Canada Life but that 24.69 is not—I would ask you rather, is that a fair comparison with these other items, would that be a fair way of putting the ratio of the Canada Life in comparison with these other companies?

35th day, June 5th, 1906.

(Mr. Sanderson continues to answer.) A.—It is fair as ratios are usually made.

Q.—Take the very next company, does the Confederation Life take into account the bonus additions that have been credited to its policyholders as part of its premium income, or have you done so in that? A.—We have done so.

Q.—You have taken everything with the Confederation Life? A.—I don't know anything about the Confederation Life.

Q.—You have done so with the Canada Life? A.—We have taken simply the figures from the Government returns.

Q.—In the statement published to the shareholders you show a premium income of $3,299,000. That was all the premium income you actually received that year from your policyholders? A.—If we had paid out these various amounts and received them back again, that would be receipts.

Q.—The other, the 804 is a book-keeping entry, it is on one side as a payment and the other side as a receipt. A.—Required by the Government returns.

Q.—But it is only a book-keeping entry? A.—Undoubtedly.

MR. COX: But it is required by the Government returns.

MR. SANDERSON: And adopted by the companies generally.

Q.—But it is not premium income? (Mr. Sanderson continues to answer.) A.—I think so, I would treat it as a single premium.

Q.—Then you would not have that in the year preceding it at all? A.—Certainly not.

Q.—And you would not have it in the year subsequent to it? A.—No, and therefore I would never think of putting that document out for general use.

Q.—It would not be, as to the other companies, fair to them? A.—Unless they happened to be in somewhat the same position.

Q.—But if they are not? I have gone over it and I find they have not taken into account the bonus additions in the other cases. I won't say all, but I have gone over four or five of them, the Manufacturers, the Confederation, and I find that they do not take their bonus additions in in this calculation. A.—For the reason that they do not have many bonus additions.

Q.—They will quarrel with you, I will not, as to that. A.—What I mean by that is, that their profits usually are taken by way of cash. Ours is more the English system, where our policyholders largely leave their profits as reversionary bonuses.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—If these policyholders had taken their profits by way of cash, that $804,000 would not have appeared at all? A.—Certainly not.

Q.—But being left the company had $804,000 of accumulated surplus over and above what was required for reserve, for division amongst these policyholders, is that correct? A.—Yes.

MR. COX: And they decided to take the additional insurance in place of taking the $804,000 in cash.

Q.—They had that as an accumulation of 5 years growth? (Mr. Sanderson continues to answer. A.—Yes.

Q.—And it would or could not be looked upon as a fair indication of the amount of insurance written for that year, because it was earned through a period of four or five years? A.—True, and that is what I claim, that all these ratios like that usually made up by people, drawn from the Government Blue Book are in nine cases out of ten misleading and unfair.

Q.—Have you figured out what the ratio of expense to premium income was during the preceding year in the Canada Life? A.—I have not got it here.

Q.—Have you, Mr. Cox, looked at that? I would like to know whether you had at all been exercised as to the increase in the ratio of expense to premium income during the last 5 or 10 years, particularly the last 5 years of the Canada Life. (Mr. Cox answers.) A.—We have considered very carefully the policy of whether we would extend our business as rapidly as we are doing. My own judgment has been in favor of just the kind of progress that we have been making, the extension of our business to the United Kingdom, where we reach 40 millions of people just as insurable as we have in Canada. The English and American companies are coming to Canada and sharing our business here, we are competing with companies both from the United Kingdom and the United States, and I do not propose, so far as I am concerned, so long as I am controlling the policy of the company, to let the fighting all be done on Canadian soil. It will be done on the American Continent and in the United Kingdom, and I think you as a Cana-

dian will agree with me in that. We will show an increased expense ratio while we are getting our plant in London, but the time will come when the business of the Canada Life in the United Kingdom will be greater than that of the oldest English company there. We are close to them now and we will be ahead of them in a little while.

Q.—That leads up to what I was going to ask you, Senator. Up to the time of your—I do not use the word at all offensively, it has been used before—obtaining the control of the Canada Life it was not extending in that rapid way that it has been in the past few years? A.—That is true, and that is the very point upon which we joined issue.

Q.—I find that in the year 1895 the ratio of general expense to premium income was about 24 per cent—I am not going to give the points—that it kept up to '96; it dropped in '97 to 23, and I may say that in that is included—which perhaps should not fairly be included—the dividend paid to the stockholders, because that is not really an expense, but it only makes a difference of 1 or 2 per cent. at the most. In 1898 it was down to 23; in '99 it was 24, and in 1900 it was 23. It was also 23 in 1901. In 1902 it went up to 24. In '03 it was 27. In 1904 it was 27. And leaving out that $800,000 it was 29 in 1905? A. —On our premium income?

Q.—Yes, I am leaving out that $804,000? A.—Yes.

Q.—Of course that brings it down. Now that is from 23 or thereabouts and that was a normal ratio. I have given you several years, I have not taken an exceptional one; a normal ratio in those years of between 23 and 24. That is now steadily going up. Is that a necssary part of your policy to increase those proportions while you are seeking for this new business? A.—Our company has been 59 years in existence. Over 40 per cent. of the business now on its books has been put on since 1900, and that is my justification of the increased expense ratio. It was not any mistake upon my part, so far as my judgment went. I recommended that policy to the Board, and they accepted it. I am willing to admit that the actuary would have held back a little and gone a little slower and he puts upon me the responsibility of having recommended an onward policy to this company.

Q.—I quite appreciate that, and I assumed that that was the explanation, that you have considered that what we may call perhaps the somewhat slow policy and very moderate development of the Canada Life in the years prior to your control should be accelerated even at considerably increased cost? A.—Yes sir, and ultimately largely decreased cost.

Q.—Although you told me a minute ago you never knew a company yet that had arrived at the stage that it did not want to write more new business each year? A.—It is not impossible though that that should occur.

Q.—That is going to be Senator Cox's company at all events. It will come to that time. Then, I do not want to put it unfairly, may we expect that that ratio of expense to premium income in the view of the President of the Canada Life, if carried out, will go on increasing? A.—No sir, it will go down.

Q.—When? A.—Well, if you will just give me an application on your life, you will watch the decreasing figures.

Q.—No, I won't do anything of the kind; not at that cost? A.—You cannot put it in any other company where you will get as good a result.

Q.—I have no doubt that if you were to put yourself against most canvassers, they would find themselves coming out at the small end of the horn? A.—I don't know that, except that the plain facts and the results shown by the company, I can show you that all right.

Q.—Then I understand, if I may use the word, that the push and the strenuous effort to obtain new and increasing business may be expected to continue? A.—No, that is not correct. We do not propose to open new fields. We did think it a proper thing to do to open in the United Kingdom, and we did that and that fact almost entirely explains the increased expense ratio. We are now at a point where that will very quickly turn the other way. Our renewal premiums in the United Kingdom this year will perhaps be $300,000 a year at least. Another fact that the actuary has just mentioned to me, in the United Kingdom the mode of doing business is such that the chief expense is in the first year; that is to say we have a much smaller charge upon our renewals, 2½ per cent. in place of 7½ as here, and we will get a great benefit from that. This expense ratio, Mr. Hellmuth, will work out all right and the company is on the right track.

Q.—I have not the slightest doubt about your belief of that, sir, not the slightest. You have just stated that

35th day, June 5th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

the cost of renewal business in England is 2½ per cent? A.—On renewals.

Q.—I think you stated to my learned friend, Mr. Shepley, that in Canada it was 7½? A.—Yes sir, that is so.

Q.—Have you any hope of bringing the more moderate cost of English renewals into vogue in Canada? A.—Yes, sir, the chances are that that will be the result.

Q.—Because 7½ is 3 times the cost there? A.—When you speak of 7½, that is the general agent's commission, out of which travelling expenses and all that sort of thing is paid. You could have the commission 2½ and you could pay the travelling expenses direct and charge it. There are a good many things of that kind you have to take into consideration.

Q.—What I thought you said was that the English charge for renewal was 2½? A.—That is the plan there.

Q.—As against 7½, no matter to whom it goes, in Canada, is that right? A.—No, that is not quite correct.

Q.—Then the English cost is greater or the Canadian cost is less, which is it? A.—Well, where we pay 7½ to general agents, they pay out of that their expenses. In England where we pay 2½ to the agent who collects the renewals, we pay something for expenses.

Q.—Would that amount to another 1 per cent? A.—I couldn't tell you that. That will depend upon the volume of business.

Q.—You cannot make an accurate comparison at present?

MR. SANDERSON: At first it might be more, but ultimately there will be a large saving upon the 2½ per cent. basis.

Q.—I notice, Senator Cox, in going over the report that in the years 1901, 1902, 1904 and 1905, securities on the books of the company and standing still to the company's credit not disposed of, were written up to a total of $694,000—again leaving out the odd hundreds—and in the year 1903 they were written down to the extent of $239,000. That was the year in which there was such depression. A.—Yes.

Q.—Making a total net writing up of $455,447.

MR. WATT: Not written up; that is a wrong word, Mr. Hellmuth.

Q.—Well, what shall I call it, if Mr. Watt will give me a better term I will gladly accept it.

(Mr. Watt answers until a change is indicated.)

A.—Market value.

Q.—No, taken into account in the credits of the company, these stocks are now taken into account at a value of $455,000 more than their cost value. A.—Not into the accounts of the company; taken as a non-ledger asset.

Q.—Put in as an asset? A.—As a non-ledger asset.

Q.—But taken as an asset of the company, included in the total assets? A.—In the total assets, yes. We have got to make that return, you know.

Q.—Quite so, and it goes towards making up the surplus, isn't that so? A.—Yes.

Q.—First of all, these items are items of stocks or bonds that have not been disposed of. A.—I want to explain in connection with that, prior to the time of the present administration of the company the difference between market value and account value was adjusted practically at the end of every year. Since the 1st of January, 1900, we have not done that; we have allowed the increase in the value of our securities to remain as a non-ledger asset rather than write up one year and down another year. The result is that last year we had half a million dollars, and in that alone I think, $250,000 would be in bank stocks, some of them 60 points below the actual market price to-day.

Q.—I do not want to misunderstand you and I am sure you do not want to misunderstand me. In the total assets as shown in the returns by the company to its shareholders, they say that $455,000 of those assets were made or appear by putting the market value of stocks that had been purchased at a lower value, or bonds? A.—Certainly, but at the same time that $455,000 might have been converted at the end of that year into a ledger asset by writing them up, and then that argument would fall to the ground.

Q.—Perhaps you have not got to my argument yet; I am not arguing yet; I want to get some facts. You are anticipating something that I do not think I have in my mind at all. You have treated the difference between what you purchased a stock at and what that stock might be sold for on a given date, as something gained by the company. A.—Quite correct.

Q.—That is right, is it not?

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

MR. COX: Yes, that is right. I think everybody does that.

Q.—Quite so, and therefore if you had bonds or stocks to any great quantity, your surplus might vary from month to month according to the depression or rise of the stock market. (Mr. Cox answers.) A.—Quite true, and allow me to put in a word here, that shows the importance of having a million dollars of cash capital.

Q. Quite so, I think very important in that view, because your surplus is exceedingly small for the size of your company? A.—Our policyholders insist upon having it distributed every 5 years.

Q.—I did not ask that. I do not think your policyholders have much to say about it. A.—Oh yes, they do. You see every 5 years the surplus is distributed and we distribute it just as closely as we can. That has always been the practice and that year you speak of is the first year when the quinquennial distribution took place.

Q.—I see that in this balance sheet for December 31st, 1905, you show a net surplus over the liabilities of $393,000. A.—Yes, well if you look at the year before you will see a much larger surplus, but during that year we made our usual quinquennial distribution of profits and completed the change of our reserves to the 3½ per cent. basis.

Q.—You had $393,000 of a surplus at the end of that year, 1905? A.—Yes, but during the year we paid out to our policyholders $1,200,000 odd.

Q.—I am coming to that in a moment. You had that surplus at the end of that year and if it had not been for the $455,000 that you had written up as the improved value there would have been actually a deficit of some $62,000. A.—We would not have given the policyholders so much, and we would have had to postpone the completion of the increase of our reserves. It would have taken us longer.

MR. WATT: $504,000, Mr. Hellmuth, I think that amount ought to be.

Q.—No, I have taken what you wrote off.

MR. COX: We were increasing our reserves, completing the change of our reserves. That and the effort to pay one per cent. per annum to our policyholders ran our surplus of course pretty close, but at the end of this year it will have a very substantial addition to it.

Q.—I should say that instead of your having written up as I have given you $455,000, you had actually written up during the year 1905, I mean inclusive of this, $548,000, so that you had practically written up an extra $100,000.

MR. WATT: Valued.

MR. COX: That is the securities had during the time increased by that amount. They have increased $150,000 since that date.

Q.—I am not saying they have not. In the stock market. That would merely mean that if it had not been for that valuing up—taking Mr. Watt's expression—you would have been $162,000, not $62,000 short, if you had divided as much, only you say you would not have divided so much? A.—We would not have been able to.

Q.—Your policyholders could not have got as much as they did, nor could your reserves have been placed on the 3 per cent. basis, had it not been that amongst other things you valued up the securities you had purchased above their cost by what they then represented in the market. Is that correct? A.—I would rather you put it this way. Had not the securities increased in value. We did not write them up, or rather what I mean to say is, the public wrote them up by valuing them at a higher rate and making them saleable on the market at a higher rate. Many of the bank stocks had increased in value by the addition of large reserves; banking institutions were all making large profits and as they increase their reserves from year to year the value of these stocks go up. We would have been unable, as you say, to have paid off $1,200,000 odd to our policyholders and to have completed our reserves upon the 3½ per cent. basis; you are quite correct in that ; but remember that we have been doing very effective work in changing our reserves in anticipation of the date required by the Dominion Government. That is one of the points upon which we have been criticized and that action is something for which I am quite willing to take the credit, although it does not lie at my door. It was the policy of changing the reserves—

Q.—Perhaps you will let me come to that subject after a little. We have not got to the reserves yet. What I really want to get from you is this; do you think, as a matter of principle again, that an insurance company before it has realized upon securities that it purchased, should put

them up or down in its books according as the stock market fluctuates, and divide on that basis amongst its shareholders? A.—We did not divide, and that is what the public are complaining of. We put it in the vaults to provide against contingencies.

Q.—We mean adding to your reserves? A.—Yes.

Q.—You did appropriate it for some purpose? A.—We created a liability by holding that money as a reserve for our policyholders and that is an argument in favor of the conservative and strong policy that we have adopted.

Q.—You have upon your books today, I take the 31st December, 1905, an apparent surplus of $393,000. That we will say represented the value of your securities as they appeared in the market? A.—On the 31st December.

Q.—On the 31st December, 1906, those securities have gone up in value to say $1,000,000, and you at once increase your $393,000 so that on the 31st December, 1906, you have $1,393,000 as a surplus. In January, 1907, a wave of depression occurs and they go down 2 millions. If you have divided or handed out that, are not your policyholders and the public frightened by seeing these possibly large variations from day to day or month to month in your assets? A.—We do not think so. These remarks apply not only to the $393,000 but to the whole $31,000,000 that we have. There may be fluctuations in them. As I have already explained, that $393,000 of surplus left at the end of the quinquennium after completing the change of our reserves is comparatively small, but that is just after paying out these quinquennial profits to the policyholders and after completing the reserves, and that is the explanation of it. Probably at the end of this year there will be no division of profits to make, or just the policy that have their quinquennium in this year, and there will be a very substantial addition to that reserve and that will go on for each of the five years of the current quinquennium.

Q.—What I want to get at is this, should not a company only show the profits that are made upon an investment when it disposes of that investment and not show profits from time to time, imaginary profits, because they are not made, while the security stands on its books? A.—We do not think they are imaginary. We think they are very real.

Q.—You understand the point however. You show when you sell a security that you have made or lost upon your investment. More often you appear to have made, one is happy to say. You show that because you have got rid of that altogether and it is a certainty that on that particular investment you have made 5 or 50 thousand dollars as the case may be. But while the security stands upon your books, is it any better or any worse necessarily by reason of the fluctuations of the stock exchange, does it mean anything more to you in interest? A.—Yes, it does; take for instance the Bank of Montreal stock; its intrinsic value is greater than it was at the end of the previous year; its market and intrinsic value both, and its selling value.

Q.—The Bank of Montreal paid you when you had it on your books at the old figure, 10 per cent. on its par value, and it pays you 10 per cent. on its par value while you have it on the new basis? A.—Yes.

Q.—You get no more interest out of the Bank of Montreal stock, whether you put it at a higher or lower figure? A.—Well, but is that any reason?

Q.—What I want to get at is the view you take in regard to the sale of securities or the retention of them. Is it right for an insurance company to have a possible fluctuation from day to day of, in a company as large as yours, with its hundred million of assets, possibly a variation in the case of a serious depression in the market, of two or three million dollars by reason of fluctuations in the stock exchange, when you are quite strong enough to hold those stocks until they come back?

MR. WATT: Do not say stock exchange, because stocks are a small proportion of our assets.

Q.—Stocks and bonds? A.—There are other securities. 6 millions of mortgages.

Q.—Quite so, but do you think there should be the possibility of that apparent shrinkage, when it is only apparent, or apparent increase, when it is only apparent, until you have sold, because it may come back; do you think that should be shown at all, do you think you ought to make any change? (Mr. Cox answers.) A.—Would you suggest that we should write these things down to or leave them at their market value in the books notwithstanding the fact that they have increased in value? We have to make a statement in that way for the Government Department; they require it.

Q.—I would suggest—I may be all wrong—that you should keep them at

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

their cost value and until you dispose of them you should not write them up and take credit for them in your annual or other statements. I do not mean that you should not show that you have got over and above the cost, this book value, but it should not be shown as an asset that could fluctuate. Mr. Watt says that if it went below the value how would you provide for the loss. It might be wise to leave it just where it is as long as it was bringing you in a good rate of interest. They should be left at their cost value, that is my suggestion. A. All the companies pursue the same policy that we do.

Q.—I am not saying that you are exceptional. I am asking whether it would not give you greater stability to have the value of securities left at cost.

MR. LANGMUIR: In that connection I would like to ask the Senator whether a stock that could be sold at a large premium should not be realized, and the realization including that premium, invested in a stock such as municipal debentures? Realize on your large premium when you have made a big profit? A.—It might be wise to do that, your honor, but the result of our banking stocks, in which the larger increases have occurred, has been very profitable and we think that institutions like the Imperial Bank, the Bank of Montreal, the Bank of Commerce and other banks, in looking over our lists you will see a very exceptional lot of bank stocks and we think they will increase in value rather than decrease.

Q.—They have got very high, you know? A.—They are very high, but in nearly every case the increasing price is represented by an increasing dividend and a reserve. Most of these banks have 100 per cent. of reserves more and I think their statements do not exaggerate their value at all.

Q.—I was only speaking as a matter of absolute safety, if you could sell a stock at a larger premium, whether it was not better to sell some of them and put it in something that has a fixed value? A.—If it were a fluctuating stock it would be right and I quite concede what you say, your honor, but our bank stocks have been so profitable to us and we think there is a great growth, if you compare our bank stocks here with bank stocks in the United States and in the United Kingdom you will see that their figures are much higher than ours in value and we think that the same result will occur with bank stocks in Canada.

Q.—You do not think there will be a reaction? A.—It will only be temporary and to an institution that can afford to hold, if they do go down in price, we are always protected against any serious results, we will just show at the end of the year a less surplus, that is the only way it will affect us, and our surplus is always fluctuating because it starts at the beginning of a quinquennial period and goes up to the fifth year and then goes down and keeps repeating that all the time. When we pass through a quinquennial period where the fluctuations, the shrinkages have been severe, we just have a less amount to divide. It would not affect us in any other way.

(At 2.15 adjourned for one hour.)

AFTERNOON SESSION.

Resumed at 2 P.M., June 5th, 1906.

Examination of Hon. George A. Cox continued:

MR. HELLMUTH: I do not know whether I did make it quite clear, I tried to, that in the statement of the 31st December, 1905, the surplus of \$393,000 odd was only so provided the \$548,000 of the market value of the bonds over book value was taken into account? A.—Yes sir, that is quite true.

Q.—So that of that \$548,000, \$156,000—I said \$160,000 but I was a little too high—\$156,000 was used either for making up the reserve or on dividends to policyholders or stockholders? A. —That increased value of the securities.

Q.—Yes, to that extent was used? A.—Yes, used in making up these figures. I would like to make it clear here that the Government require us to put these things in at their value either up or down.

Q.—I quite understand the Government require you to show the market value as well as the book value? A.—Yes.

Q.—But the Government do not require you in your statement of assets and liabilities to your shareholders to take into account the market value, you could, if you liked, take in the lower value, the cost value? A.—We would not be making a correct statement of our assets and liabilities if we did, somebody would be charging us with sticking things out of sight, and having hidden assets.

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—If you put in your shareholders' statement, the value of your assets, stating them to be the book value and that the market value was a good deal more you would not be hiding anything away? A.—I do not think, if you would permit me to say so that it would be fair to our policyholders and shareholders to show our assets at less than their actual value.

Q.—It must get back to this, that they must fluctuate from day to day as the various exchanges or values fluctuate? A.—Yes, we do that at the end of every year, we would have to reduce them if they were reduced in value on the market. We advance them the same way. That shows it fairly.

Q.—You might, for instance, make more or less profits in a year, you might not have disposed of a single security, and your securities might be bringing in just the same interest to you, but because the value on the exchange had dropped you might have to wipe out that entire profit? A.—It is an increase in the values, not on the stock exchange alone, for instance bonds increase and decrease in value according to the market value very much.

Q.—But that is the market value? A.—For instance British Consols will come away down; they have fluctuated perhaps 20 per cent., more almost than any other security, than any other high-grade security of that nature. They are not worth any less from that standpoint, and still we have to write them down. Some of the Scotch Companies and English Companies holding large blocks of British Consols by reason of the decrease in the value were very seriously affected. From your standpoint these securities were worth just as much when they were down to eighty—

Q.—If they were paying the same interest? A.—That was the case, no change in the rate of interest.

Q.—And if they came back the company would be no worse off eventually? A.—But in the meantime in the Insurance Department they would not be permitted to value them above the price at which they were selling on the exchange.

Q.—That is not the case here? A.—It is the reverse case.

Q.—You are allowed so far as the Department is concerned to value at the book value, the cost value? A.—We put them in at the book value and at the market value both, we are required to do that.

Q.—You have to show that? A.—Yes sir.

Q.—We were dealing before with the increase in the expenses of the company owing to your policy of strenuous—shall I call it, development being pursued—I think you took the entire responsibility for that? A.—Yes, I take the entire responsibility for a legitimate extension of the business.

Q.—And I suppose you will take the responsibility for what was the corollary of that extensive business A.—Will you let me explain here that the full cost of that business the new business that we are doing is charged to that business and will be paid by the new policyholders that we are getting, not by the policyholders—

Q.—Meanwhile it re-acts on the old policies? A.—No, it does not, the actuary will be able to show you that the cost of getting the new business is chargeable to the new business and the putting up of the reserves is chargeable to the old policyholders whose reserves have been increased. The new business starts out upon a three per cent. basis. That you may criticize as another very conservative step. The Government only requires us to hold our reserves upon new business—

Q.—I was coming upon that question of the reserves later; meanwhile as a matter of actual fact the expenses of the company had more than doubled since 1895? A.—Doubled in amount or in percentage?

Q.—No, in amount? A.—I hope to see it double again in ten years.

Q.—You hope to see it double again? A.—Yes, I hope to see the business correspondingly large.

Q.—You do not hope to see it double again in percentage? A.—I hope to see the business double and consequently the expenses.

Q.—But you do not hope to see the percentage double or even go up a third in ten years as it has? A.—The result of our policy will be a steadily decreasing percentage.

Q.—You said that, although up to date it has been a steadily increasing percentage? A.—Not quite up to date, because I just got the balance sheet up to this date, and we are decreasing our expense ratio.

Q.—That is 1906? A.—Yes.

Q.—We have not got those figures? A.—No.

Q.—But up to 1905 it was in increase? A.—Yes, because our business increased from four millions to thirteen millions.

Q.—I do not know whether you are or have followed at all the increase in

expenses; the operating expenses of the business in 1895 were $479,000; they were even less in 1896, they had gone down to $381,000; they kept below the first figure in 1897, $423,000; in 1898, $439,000, in 1899, $477,000. During the period therefore from 1895 to 1899, or five years, the expenses of the company, although it was increasing its business, were not increasing themselves? A.—I do not remember what increase was made during these five years. I do remember what was made in the five years last past.

Q.—That we can get afterwards; but whether there was or was not an increase you recognize that fact that the company were not increasing its actual expenses at all during those years, those five years? A.—It depends upon the business. Let me illustrate that by an illustration I have used. Suppose we decided to do no business at all, just to keep our renewals, we could do our business at about 6 per cent.

Q.—Will you let me just interrupt you a minute, how could you do your business at 6 per cent. if you pay 7½ per cent. for renewals? A.—Because we do not pay 7½ per cent. upon all our renewals. If we were stopping business we would not pay 7½ per cent., we would simply let the policyholder pay his premium at the head office and we would just have the cost of the office staff to pay their salary—I am speaking now, I am not suggesting that policy at all but I am doing it to illustrate the point that the expense ratio in a life company does not seem very much. Ten per cent. or 8 per cent. might be under one circumstance a very high rate and 30 per cent. under another circumstance might be a very low rate.

Q.—You will hardly say in the face of the literature of the Canada Life that the Canada Life stood still from 1895 to 1899? A.—I will say this that in the last five years from 1900 to 1906 there has been pretty nearly as much business put on the books during that time as there was in the previous half century.

Q.—I am not dealing with the previous half century, I want you to confine yourself to a period of ten years from 1895 to 1905, and I ask you whether you think it would be fair to characterize the business of the Canada Life from 1895 to 1899, those five years, as a stagnant business? A.—No, I would not.

Q.—Then it was going ahead? A.—It was going ahead this way, it has always been going ahead a little.

Q.—And it was going ahead then? A.—Yes.

Q.—And during that period, although it may not have gone ahead anything like the rapidity with which it did in the next five years when you came into control, let us fix this, it did go on in those five years? A.—Yes, and we could go ahead just the same and keep the expense ratio down.

Q.—And in those five years it went ahead without increasing its expenses, because the expenses started in 1895 with $479,000, and they never were as high during the whole five years, and the next highest was in 1899, when its expenses were $477,000—how do you explain that? A.—I think I have already stated in my evidence that you can make a moderate increase and at the same time decrease your expense ratio, but my policy has been to make a more substantial increase in the business, and it is that substantial increase in the business that has made the expense ratio for a time somewhat higher. If we do the same business this year as we did last year we will be making good progress and we will be reducing our expenses. If on the other hand we seek as we have every year for the last five years to show an increase over the corresponding years then our expense ratio will gradually climb up. If on the other hand we decide to do two or three million dollars less our expense ratio will go down.

Q.—In 1900 the expenses went up from $477,000 in the previous year to $653,000, very nearly $200,000; that was quite a large jump? A.—Answering and explaining questions like that without having the figures before you—

Q.—Assuming those figures? A.—The actuary has just reminded me that in that year $100,000 practically, ninety odd thousand dollars, was used for the purpose of buying an annuity for the retiring President.

Q.—Was that charged to the expenses of the year? A.—Certainly.

Q.—The entire expense of the annuity charged to that one year? A.—Yes sir.

Q.—So that Mr. Ramsay's annuity now is no charge upon the funds? A.—No sir.

Q.—No longer? A.—No sir.

Q.—Then in the next year, 1901, you did not buy an annuity that year? A.—No sir.

Q.—Your expenses went up from $653,000 to a little above that, $657,000? A.—How much did our business go up that year?

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—Your premium income that year was $2,476,000? A.—Let me make another statement here; when you speak of our expenses in 1900 or 1899, as compared with 1906, we have a much larger income to pay commission on, there are so many things to be taken into account to get an intelligent comparison.

Q.—It is perhaps fair to say what your premium income was through those years; your premium income in 1895 was $2,007,000; when your expenses were $479,000; it was $2,026,000 in 1896; it was $2,088,000 in 1897; $2,167,000 in 1898? A.—Remaining very much the same.

Q.—$2,164,000 in 1899? A.—Just going along about the same.

Q.—It has gone up from $2,007,000 to $2,164,000, that is a gain in those years of practically $160,000 in premium income. In 1900 your premium income was $2,380,000; then your expenses are, including that annuity, $653,000. In 1901 your premium income is $2,476,000; it has gone up $100,000. That is to say it has gone up very nearly, or about two-thirds in that year, of what it did in the preceding five years—you see that? A.—What year are you speaking of now?

Q.—1901, your premium income has increased from $2,380,000 to $2,476,000, in round figures $100,000; that is about two-thirds of the increase of the preceding five years? A.—I fancy there would be a corresponding increase in new business.

Q.—Your operating expenses are $657,000, or nearly $200,000 more than they were during the last of the five years; you have increased your expenses even greater than your premium income; then in 1902 your premium income is $2,615,000? A.—There you have the explanation.

Q.—No, because look your expenses have gone up to $775,000, they have gone up $125,000, and your whole premium income did not go up $125,000; your expenses have gone up in actual greater figures in those two years than your premium income; you have eaten up all your excess of premium income and something more in those two years in increased expenses? A.—If you will let me take these figures and go into them with you.

Q.—I do not know whether you have ever followed it out? A.—I have followed it out, and I have given you my defence, and it is perfectly legitimate; any person will understand that if you increase your business, if you put during the years you are now considering we have put, as I say, 40 per cent. of our entire business on our books; we have done that largely in a foreign field where we are laying the foundation of a large and profitable business, and during the years in which we are laying that foundation our expense ratio suffers.

Q.—Do you expect that that future profitable business in those fields will benefit the existing Canadian policyholders? A.—It will neither benefit them nor injure them.

Q.—Why should you take money to do that profitable business from the Canadian policyholders? A.—We do not take it from them.

Q.—But their profits are reduced? A.—Their profits are reduced for two reasons, by the shrinkage in the rate of interest, which amounts to over three million dollars in each quinquennial period, and by the change in the reserve.

Q.—Have the increased expenses of the company nothing to do with the fall in profits? A.—It has nothing to do.

Q.—Absolutely nothing? A.—No. What I want to make clear to you is this, that the two branches of business—it is practically a new company, this new business starting out upon a three per cent. basis and starting into other fields is practically a new company, and all the expenses are chargeable to that business, and it is only new policyholders that will be affected by that—a clean, clear cut line between the two, and the actuary will be able to demonstrate that to you as to how it is affected, and how it works out

Q.—But if all these large expenses or increase in the expenses are to be credited to this new business in 1900 and be kept entirely distinct from the business written before 1900, both as to your reserves and otherwise, will there be any showing whatever of profit to date on that new business? A.—Not very much. In some of the years there will be a credit and in some of the years there will be a deficiency. The actuary can make that quite clear and plain to you in actual figures.

Q.—Meanwhile in 1905 the expenses of the Canada Life are $1,087,000? A.—Yes.

Q.—That is to say we have gone from $479,000 to $1,087,000? A.—To all these statements I can only give you the same answer.

Q.—It is on account of new business? A.—Yes, on account of the extension and the old policyholders are not affected by it. The completion of the change of reserve covers one very important point that will help in future

35th day, June 5th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

in place of hindering the distribution of profits, but the decreasing rate of interest will continue to have a serious effect upon the dividend paying abilities of the company, but that decrease in the rate of interest will be to a very considerable extent overcome by the $2,560,000 that is now in the vaults of the company earning interest and that will help the profits and help to make up for the decreasing rate of interest on the general funds of the company.

Q.—Can you tell me at all about what amount of the business written prior to 1900 is likely to be on the books of the company in 1915? A.—We can give you that by our mortality table, and we could tell you—

Q.—Have you ever figured on that at all? A.—I suppose the actuary has.

Q.—About what? A.—I could not very well tell that, because we do not know how much new business will be added.

Q.—Leave out the new business? A.—We can make an estimate according to our tables of mortality on the expectation of claims there are going to be, they may be more or less, the chances are they would be less than the expectation.

Q.—Stopping the entire business of a company at a given year, in 15 years from that what proportion would ordinarily be left upon the books? A.—That depends so much on the age—

Q.—All the ten year and all the 15 year payment business would be gone? A.—That is endowment business.

Q.—Yes? A.—We could tell you that. The mortality table could be looked at, but you must know the age of every policy.

Q.—A very considerable portion at all events will be at an end in 1915 of that business? A.—Yes sir.

Q.—You expect that? A.—We do certainly, that goes without saying.

Q.—During the continuance of that old business there is no question that those policies that become claims in these years, or did become claims since the reserve was changed have suffered a considerable diminution in profits? A.—That is true, but I explained that the other day; we considered that question changing our reserves.. My contention was this in arriving at a decision in that matter. Policyhoders who have been in the company for many years their premiums have not only been wiped out by the application of profits, but they are actually in receipt of a good, large annunity in many of the cases of our old policies, the profits in the past to the shareholders of the Canada Life have been larger than they should have been, and if they had paid a bonus of 2 per cent. per annum during the whole history of the company we would have done that, and we would have changed our reserve to the 3½ per cent. basis without affecting our ratio of profits at all; in other words we could have continued the 2 per cent. rate all through these periods if we had kept that two, but we paid in some years, I think for ten or 15 years, 2½ per cent, and for one 5 year term we paid 2 5-8 per cent. It was the excessive profits paid in those years that made it necessary in order to make the change to the more severe basis of reserve, made it necessary to reduce the profits. We would not have had to reduce them if we had kept on the even 2 per cent. basis all the time, it would have compared very favorably with all other companies doing business, but the company was forming the higher rates of interest, and favorable mortality and all that, and it made these high profits.

Q.—The company never paid any profits it did not earn? A.—No sir, but it paid very close to what it did earn, and it should not have done it in my opinion.

Q.—That is rather a reflection upon the management of those days? A.—You may call it that if you like, I think it was a mistake, and what I regret, is, perhaps some persons think that I was anxious to take the Presidency of the company at the time I did. I was exceedingly anxious not to take it for four or five years later anyway; at that time my predecessor would have been approaching 80, and he would have been willing to retire, as he was at the time of course, but I mean he naturally would have been—

Q.—He would have been more ready to retire? A.—Yes, and he would have had the credit or the blame or the criticisms I have in changing their reserves.

Q.—He may not have fallen in with your ideas? A.—Yes, he would have had to do it—let me say he did fall in with it, and he is on record recommending it, and he commenced it before he retired, but he retired just before the time when the announce-

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

ment had to be made to the public that the change had been made.

Q.—There was absolutely no necessity in law to make the change when you did? A.—There was no necessity in law to do it, but it was done as a matter of judgment.

Q.—The Act provides that the reserves should be computed upon the 4½ Hm. until 1910? A.—Yes.

Q.—And the Act further provided, as you well knew, that from 1910 to 1915 they could be calculated upon the 4 per cent. Hm. table, is that correct? A.—It is correct, so far as the Canada Life is concerned if we had maintained the rate of reserves on the old basis we could not have done the business in United States, and we would have been at a very great disadvantage in doing it in the United Kingdom where many of the companies hold their reserves upon a 2½ per cent. basis.

Q.—But so far as the Canadian insurer in the Canada Life was concerned there was no obligation upon you, no legal obligation upon you, to change the reserve when you did change it? A.—And there was no legal prohibition against doing it.

Q.—I am not disputing that, I say there was no legal compulsion to do it at the time you did it? A.—No, it was a matter of discretion to a large extent, but as I say we were impelled by different considerations; one of the considerations is we would have been at a disadvantage, and we could not have done business in the States; in England we might as well not have gone there where companies hold their reserves upon a 2½ and 3.

Q.—And it might have been a consideration for the English business to have gone down to 2½ or 2 per cent—there was nothing to stop you, there was no legal barrier in the way to prevent you putting them at 2 or 2½? A.—On the English business?

Q.—On all the business, there was nothing in law that prevented you going as low as you liked? A.—No sir, we took what we thought was a medium.

Q.—As a matter of fact it was a mere matter of choice, and the directors whom you controlled, as you have said, in anticipating the Government standard— A.—Will you allow me to read a letter of my predecessor?

Q.—I will very much, but I won't promise to get through as early as I thought I would? A.—A very important fact in connection with this my attention has just been drawn to; during the years 1899 and 1900, and that is the time that this thing was under very serious consideration, the time we would take for changing these reserves, the persons who had been engaged in the investment of money will remember that during those two years the rate of interest was very much lower than it had been for some years previous and for some years after. Our average rate of interest earned in 1899 was 4.24. You would not advise holding our reserves upon a 4½ per cent. basis during a period of that kind. In the following year it was 4.25. We thought, and we had at the time—we took a great deal of trouble to get the opinion of leading financial men all over the country, we got from them an expression of opinion as to the rates that should be adopted in the change of our reserve, and their opinion as to the future earning power of money, and with the experience through which we were then passing the general opinion was that we were going to have a steadily decreasing rate. The great prosperity that came to the country and the great development of our North West and the great growth of the country had falsified that prediction, but that falsification in all probability is only for a few years, that is to say the rate of interest will surely get lower over a term of years, and a life insurance contract is for 40 to 50 years; people who are insuring this year their policies will be maturing 50 years hence, and we have got to keep in mind—

Q.—That would all apply to the new business written since 1900; what application could the 50 year period have to the business that was written in 1870 or 1880—I do not see the connection—I quite understand you were putting your rate of reserve down for the new business? A.—But for the old business—

Q.—You have just said you had to fix a rate of interest for 50 years, that would not apply to the old business? A.—It will apply to a part of it.

Q.—A very trifling part in 50 years? A.—We have got policyholders that have been with us 60 years, 59 years.

Q.—50 years from now the main policies written in 1880 and 1890 and along there would all be swept off your books unless you ensure long life with a policy? A.—I cannot tell how long.

Q.—However that was your idea in bringing your reserves down? A.—Yes sir, it would have been impossible for us to stop on the 4½ with the rate of interest we were then earning.

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—However, as I understand you there was no compulsion, you had a perfect right to go on and value, if you had chosen, every policy in your books at 4½ up till 1910, you could have done that, or you could, as you say, alter them at one swoop to 3½ if you chose? A.—Yes, we altered them spread over a period of 15 years.

Q.—By 1901 you had your entire business, old business, on the 3½ per cent. basis, had you not—by exhibit 193 it is shown that in 1901 you had your entire old business on a 3½ per cent. basis? A.—That is correct; it did not have any effect in our Province till 1904.

Q.—Within one year, the Act had passed in 1899 and before the close of 1901 or by the close of 1901 all your business had gone upon a 3½ per cent. basis, is that the facts? A.—Yes, but we were just at the end of a quinquennial distribution of profits, and that money was used for the purpose of changing the reserve.

Q.—If you had not voluntarily, for such reasons as seemed good in your judgment, done that you would have had much larger profits to distribute at the end of the quinquennium? A.—Temporarily we would.

Q.—So that temporarily at all events you had to take from the moneys that would have gone to the policyholders to strengthen your reserve, temporarily? A.—Yes sir.

Q.—And that would have much less affected those policyholders whose policies became claims during those years? A.—If we were legislating—

Q.—That could have been done with the power you had in a manner that would have much less seriously affected those policyholders whose policies became claims during the earlier years? A.—If we were just considering the case of a limited number of policyholders that would become a claim in those few years then it would have been for better them, but we have to deal with the whole of our 50,000 policyholders.

Q.—As a matter of fact I do not know whether the figures would be right, and that I will have to verify with your actuary, but I am told that any one whose policy, say a policy of $5,000 became a claim within one or two of those first quinquennial periods, that is between 1900 and 1910 would lose on possible profits, although we have to guess at that, temporarily at all events—he would lose permanently, because he would not get it back—anywhere from $500 to $1,000 in his profits—could you imagine that would be possible? A.—That would be possible, but my defence of that is this, that if that man had been a policyholder for 30, 40 or 50 years he would have already received such exceptionally large profits that he would have no reason to complain.

Q.—But that is only because you say the old management gave him too much; he does not think they did, he thinks the old management only gave him what he was entitled to? A.—Will you let me read what the President of the old management says?

Q.—I will, subject to the same remark? A.—This is a reply to a letter written by the Superintendent of Insurance, Mr. Fitzgerald, of Ottawa, to Mr. Ramsay, asking his opinion of the legislation that took place in 1899. Mr. Ramsay says, it is dated 9th December, 1898: "I am in receipt of your favor of the 6th, and thank you for your courtesy in inviting my views as to an amendment of the Insurance Act, providing for a lower rate of interest than 4½ per cent. for Life Companies' Reserves. Of the propriety and desirability of that, there can, I think, be no question, and the fact that nearly every Canadian company has already, without legal compulsion, adopted to a greater or less extent, the lower rate of 4 per cent. is evidence of the general acquiescence in that view. We and all companies find great difficulty now, in obtaining satisfactory investments to yield rates varying between four and five per cent., and as it is evident that these rates are more likely to be diminished, rather than increased in the future, my impression is that Companies should look forward to the basis of an interest rate not exceeding 3½ per cent. An instant adoption of that rate would probably be a measure of too heroic a character for any Canadian company, and my suggestion would rather be that the present rate of 4½ per cent. should be changed to 4 per cent., upon all business existing at some such date as say the 31st of December, 1899, to be further changed to a 3½ per cent. on that business within say five years, and that all new business after the date named should be upon a 3½ per cent. basis. While such changes would probably affect to some extent, the profit returns to policyholders, they would so manifestly be in the really best interests of the assurers, as well as the safety of the companies themselves, that they would, I think, quickly prove acceptable to everybody." That is a letter written by the late President

of the company. In saying that the company declared and paid too much profit in past years I do not wish that to be regarded as any reflection upon the late management of the company, but I say if Mr. Ramsay were here to-day he would feel just as I have experienced myself, that the rates paid during the time—we could buy, for instance, municipal debentures at a discount, 6 per cent. debentures at a discount and get 8 per cent. on mortgages; profits paid during times of that kind were larger than they should have been in the light of to-day when we cannot get 4 per cent—

Q.—But you were not getting anything like an average rate of 6 per cent. in 1890? A.—Not in 1890, but we were holding our reserves upon a 6 per cent. basis, away back in the early history of the company.

Q.—And you altered your reserves in the early history of the company from 6 down to 4½ per cent. basis without doing away with profits, in the early years? A.—But you won't forget that during those years the high rate of interest enabled us to do that.

Q.—But as a matter of fact the change was brought about in the earlier years, or was caused by the reason of the drop in interest, that was why you changed your reserves in those earlier years? A.—Very likely.

Q.—Yet notwithstanding that you were able to make that change in those years and continue your profits? A.—In the earlier years of the company the amount of reserves that we put up altogether were very small; if you will look at the dates of some of these changes when the total assets of the company were perhaps seven or eight hundred thousand dollars altogether, you will see it was not a very serious matter to change the reserve then, but when you come to change the reserve on one hundred millions of business it is quite a different matter.

Q.—Why could not you have said in 1900, there is 15 years to get this business down from 4½ to 3½ per cent. reserve, that is one per cent., we will take one-fifteenth of one per cent. a year and write it, would not that have left the policyholder with his profits in each year? A.—We could have done that, but in my judgment it would have been a mistake, and an injury to the company as a whole. That was the opinion of the leading actuaries in England and in the United States; it was the opinion of leading financial men throughout this country. I can give you a large number of letters, you will see, where we communicated with different men and got their opinions, finance ministers, ex-finance ministers, and leading financial men all over the country, and the consensus of opinion was in favor of doing what we did, with the exception of some, an English actuary especially, the most eminent actuary in Great Britain, his opinion was we should have passed our dividends altogether and gone straight to the 3½ per cent. reserve without paying anything at all, and he has stated even now since this criticism that we made a mistake, that we paid three-quarters of one per cent. bonus on those years in place of doing that. As I mentioned the other day, eight of the leading English companies have adopted the policy of absolutely passing their dividends altogether, and going straight to the reserve, and we took the medium course; you think we should have gone a little slower, others think we should have gone a little faster; that is pretty good evidence we just struck it about right.

Q.—Did it ever strike you to ask the policyholders how they would have liked the change made? A.—Yes, sir.

Q.—Did you call a meeting of the policyholders of the Canada Life to consider the change? A.—One of our policyholder directors——

Q.—Did you bring the policyholders together as a body? A.—We consulted many of them.

Q.—No, no? A.—We did not bring them together.

Q.—You did not call them together as a body and say, "Now we have this division to make and this change, how would you like it? It would work out so-and-so in your profits if we did it at once; it will affect you very slowly in regard to your profits if we do it at the rate of one-fifteenth of one per cent. a year?" A.—We did not do it, but we had the opinions, and I can give them to you, amongst the leading policyholders of the Canada Life, where they have placed themselves on record as in favor of the policy we adopted, and of our Board of Directors, one of our largest policyholders, not only a policyholder director, but one of our largest policyholders, and one of our keenest and most intelligent business men, advocated the passing of the dividend altogether to make——

Q.—But you did not approve of that? A.—No.

Q.—So that we can throw his aside? A.—The majority did approve of it, the majority approved of the policy.

Q.—Of the course you suggested? A.—Of the course that was adopted.

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—And of the course that met with your approval? A.—Yes, sir.

Q.—What met with your approval was the course that was carried out? A.—Yes, sir, I was entirely in accord with the policy that was adopted; I take the responsibility of all this.

Q.—And there is no doubt that it did hit hardly those policyholders whose policies became claims? A.—I do not think so, I don't think it did; I will tell you why; as I said before that they were very old policyholders, they had no reason to complain, if they were young policyholders, say they had insured 5 or 10 years ago, their representatives could not complain because they had got a much larger amount of money out of the company than they had paid in.

Q.—I do not see that answers the question at all; they had a perfect right to expect those profits, no matter what they got in the past or would get in the future(they had a perfect right to expect those profits to be paid them? A.—No, because it is not in the contract; we agree to pay them so much, that is the face value of the policy, and profits may from time to time be credited to that policy; so that we kept strictly within the letter of the law, what we believed to be just.

Q.—I understand what you say is this, you voluntarily went to a lower rate of reserve, and you would have been just as much within the letter of the contract if you had gone down to one per cent. reserve, you would say they could not complain of that? A.—No, sir.

Q.—In fact they had no right to expect any profits unless you choose to give them to them? A.—I do not think that is quite right; we did what was reasonable.

Q.—What you thought was reasonable? A.—What we thought, and what a great many others thought was reasonable, and if we had gone to one per cent. no person would have thought it was reasonable, but the large majority of the people thought it was reasonable and think so yet, and many of these policyholders, more in our company than any other, have signified approval of the company by giving us increased insurance. I can take you over our books where our old policyholders, who scolded us because of the reduction in profits, are insuring with us now, expressing themselves as satisfied with the course adopted.

Q.—Do I understand the view you take is that the policyholder is entitled to no profits except the directors and yourself see fit to give to them? A.—That is scarcely a fair way of putting it.

Q.—I do not think it is; they are entitled to profits if the profits are earned? A.—Yes, they are entitled to them within the lines that are reasonable and fair in the proper and conservative management of the company.

Q.—Are these lines that are reasonable and proper and conservative and fair purely within the judgment of whoever may for the time being be in control of the company? A.—I think they are in every company.

Q.—You say you recognize an injury to those claims by this course of writing it down at once to 3½, to those who might become a claim, that they would have got less than they otherwise would have got if you had spread that over a period of years—there is no doubt about that? A.—No. sir.

Q.—A policy you dealt with the other day, one affected perhaps as largely as any by this reserve, is the minimum policy; the minimum policy has been affected considerable by this reserve; I have a sample here, cancelled, not issued, minimum policy? A.—Yes. Will you read that on the policy.

Q.—"Sum assured—Life with profits, but subject to increase or diminution, as expressed in the policy?" A.—I want to show the minimum contract was fair on the face of it.

Q.—You have on a number of those minimum policies already reduced the face value of the policy by certain sums? A.—Will you give me the date of the policy to which you refer.

Q.—I have seen some, and I have seen notices to that effect, that the policy is reduced by $125, or is reduced by $200, or something of that kind; I will get it if you want me? A.—No, I could explain that matter easily if you had a concrete case.

Q.—I will take a minimum policy upon which the profit over and above the 1¼ per cent. had been declared in years previous to 1895—I take a policy of that kind, in which when the profits were declared the policyholder took his profits in cash, and after that date, there being not a sufficient amount owing to this change in reserve to pay the 1¼ per cent., he got a notification that the face value of his policy has been re-

duced; there is no doubt there have been many cases of that kind? A.—But you must remember—

Q.—I only ask you first if those cases occurred? A.—(Takes up report of his address in the 59th annual report of the Canada Life Assurance Company).

Q.—I have read that? A.—Are not you satisfied?

Q.—No? A.—Have you a minimum policy with us?

Q.—I think I have? A.—At what age did you take your policy?

Q.—I am not going to give myself away; I decline to do that, and I do not know that my policy is reduced; I am not dealing with that

MR. NESBITT: Then you see it is impossible without the actual policy to give it?

MR. HELLMUTH: No, it is perfectly plain to generalize in the way I put the question; you take a policy taken out in 1880 with profits declared in 1885, the profits taken in cash in 1890, the same thing, profits taken in cash in 1895, the same thing if there were any profits in 1899, that policy had its face value reduced, is that correct? A.—It is and it is not, it depends on how the profits were taken.

Q.—I say profits taken in cash? A.—If you started on the minimum system, suppose I was explaining to you today the cost—

Q.—I know, but I want to just get the fact of the policy in such a position as I place it, if I can get that from you—I take a policy in 1880 for we will say $5,000? A.—Here is an actual result, 1897.

Q.—Is that one in which the profits were taken in cash? A.—You want the profits in cash?

Q.—Yes, and then I want to know if the face value of the policy has been subsequently reduced? A.—It certainly would be, if you had taken the profits in cash, but this is what I want to explain to you, that when you took your policy in the first place you got under the minimum system about $12,000 for the same amount that you would have got $10,000 under the with-profits rate.

Q.—I am quite prepared to accept that, but all I want to ask you is, and to get from you this fact, that a minimum policy in which the profits were taken in cash, that is the profits over and above the 1¼ per cent. declared at each quinquennium, when it came to 1900 and 1905 there were not only no profits upon that policy over and above the 1¼, but the profits of the company did not amount to 1¼, and the policy on its face was reduced? A.—That is strictly correct, but will you not consider in that same connection and do us the justice to say, that that policy did not pay the full rate, that did not even pay the non-participating rate.

Q.—But when you solicited that policy you explained to the intending policyholder that he was only taking a half of the profits he might expect in reduction— A.—What does it say there? I explained that here very fully. I say we have been in the habit for years, we gave 2½ per cent. per annum on the sum assured, we think it safe to assume we will give at least one-half that rate for the future. Acting upon that assumption we give you the immediate benefit of the reduction in your premium, but with the understanding that if from any reason we do not give 1¼ per cent.—if we give any less than 1¼ per cent. the difference will be a lien upon the policy, or a deduction; if we give more than 1¼ per cent. it is an addition to the policy. In point of fact through all the years from the time that policy was adopted down to 1899 there has been an addition at every quinquennial distribution, and persons who allowed that addition to accumulate would have a considerable amount over the face of their policy even after the amount of the lien had been deducted.

Q.—I have got that, and those persons who chose to take what you were willing to give them, the cash equivalent of the company's addition over 1¼ per cent., those policies who had taken advantage of that had the face of their policy reduced? A.—Those who had got the cash for the previous year and left the policy just at its face value up to that division, at a reduction of $5 a year on each thousand; we gave them ¾ in place of 1¼; if we had given 1¼ there would have been no addition or reduction.

Q.—And the next time they were reduced a less amount? A.—Yes, $2.50, that is to say for the ten years during which this change was being made there has been $7.50 a year per thousand.

Q.—That reduction has been made upon those policies in that way? A.—Yes sir, according to contract.

Q.—I want to look at this contract, and tell me how you could have done

35th day, June 5th, 1906.

Canada Life. (Hon. G. A. Cox, Ex'd.)

it; the contract reads: "The Canada Life Assurance Company in consideration of the written application for this policy, etc., which is hereby made the basis of this contract, and in further consideration of the premium of ....Dollars to be paid in advance, and of the payment at the head office of the company in Hamilton, Ontario, of a like sum, etc., during the continuance of this contract, etc., hereby agrees and promises to pay .... dollars in gold at its head office aforesaid, etc., or in the event of prior death, to the said assured's executors, administrators, appointees or assigns, together with such further sums, if any, as shall have been assigned to this policy by way of profits, pursuant to the rules and regulations of the company for the time being, (but subject to increase or diminution when the policy becomes a claim)"—those policies have not become claims you have reduced, you have notified that they are reduced? A.—Yes.

Q.—How do you do that under contract? A.—Why cannot we do it?

Q.—I want to know why you do it? A.—It surely reads that way.

Q.—Surely you have to wait until the policy becomes a claim to see whether it has or has not earned sufficient profits? A.—But we do not get the money from the man now.

Q.—You have reduced the policy? A.—We have already notified him that when the policy becomes a claim he will get that much less.

Q.—I think you have actually reduced his policy and have so notified him? A.—We have notified him that his policy will be reduced when it becomes a claim.

Q.—You do not think you have actually reduced the policy? A.—We have reduced it in accordance with that contract, but when the policy becomes a claim in place of the man getting $1,000 he will get only——

Q.—But you have told me you hope before the policy becomes a claim that it won't be required to be reduced at all? A.—We hope that most sincerely.

Q.—And why notify him, because if he lives on it won't be any necessity? A.—If he lives on his policy won't be reduced.

Q.—Why inform him now? A.—Because if he dies in the meantime; that reduction will be made when the policy becomes a claim unless in the meantime additional profits have been added to the policy.

Q.—That man would never have required to have had that reduction made if you had said, as I understand you, if it had not been for the drastic method of change of the reserve—you could have paid the additional ¾ per cent. in 1900 and the additional ½ per cent. in 1905 if you had made a change of the reserve gradually instead of in that sweeping way? A.—If you would use the expression in consequence of the decreased rate of interest earned upon money rather than the drastic measures adopted it would put the thing more fairly.

Q.—My language is too strong for you, but the facts are the same? A. —The change of interest is something we are not responsible for.

Q.—It was the change in reserves that cut him down, not being made gradually? A.—And that change in reserves was necessitated by the decreasing rate of interest; we would not have to make it at all if the interest had stopped up as it was.

Q.—But you have told us, if I understand you aright, that you could have done it in one of two ways, excepting that you thought you could get better business by doing it all at once, you could have done it gradually, you could have done it at 1/15 of one per ecnt. each year? A.—A banking institution, for instance, may give the shareholders every year all the money they earn, a trust company, a loan company, any company may divide every dollar of profits they have got, but all well managed institutions keep a certain amount of reserve and surplus; this is just the same thing; it is increasing our reserve, it is strengthening the position of the company, it is complying with what would be demanded of us within a certain time.

Q.—But taking your own illustration it would be considered very bad banking, would it not, if the whole or the greater part of the money required for a five or six per cent. dividend in a bank were taken in order to make a sudden reserve of $500,000 or a million dollars, would not you add to your reserve gradually in your bank, still keeping your profits or dividends to shareholders? A.—That is just what we did here; we have 15 years to do it.

Q.—The first appropriation in this statement is in 1894, and by 1904 the whole of it was in, that will hardly make 15 years? A.—You will find by

an examination of the statement it was done during three quinquennial periods.

Q.—I agree with you, but it was all done within six years? A.—It was done during these years we were making preparation for it and setting aside a certain amount of money in each of these three quinquennial periods.

Q.—In 1894 you set aside, according to this statement, some $500,000 approximately; by 1901 you had got to $2,565,000 completely set aside, is not that correct? A.—On every page of that book you will find one or two letters from leading financial men all over this continent advising the course we pursued. (Refers to a book he has in his possession.)

Q.—I would like you simply to answer my question, which I do not think is a difficult one, that within six years, so far as the company is concerned, from 1894 to 1901, there was appropriated $2,565,000 to change the reserve? A.—That is the result of having a certain amount of the earnings spread over three quinquennial periods.

Q.—I understand that, but it was done within those period of years, it was taken out for that purpose—this is from 1894 to 1901? A.—A portion of that money was earned in the five years terminating at that time.

Q.—I do not deny that at all, but no money was taken out of any year after 1901 to make up the reserve? A.—No.

Q.—Nor would it be required, no money was taken out of profit after 1901 to make up that reserve, is that right? A.—It did not affect anybody till 1904.

Q.—I do not ask that. After 1901 no money was taken or appropriated from the funds of the Canada Life for the purpose of reserve; it did not require? A.—No, sir.

Q.—That is right: no money was appropriated for the reserve for that purpose prior to 1894 from the surplus—what was the surplus of 1894? A.—I am quite correct in my statement that the reserves were changed by appropriating a certain amount of the earnings over a period of 15 years. I cannot say that any plainer than I have, and I say again that that was what we believed and what a great many men believed, a great many companies, to be the right policy, and you do not want me to say or admit I did something wrong in doing that, because I do not feel I did in recommending it. When I speak of it in a personal way I want it understood that that was the unanimous opinion of the Board of Directors; the only difference of opinion was in one or two cases where they wanted to go a step further and do it quicker.

Q.—Was any money taken for the purpose of this $2,565,000 from the year 1885 or 1886, that is the beginning of the period of 15 years, because if so this statement is not correct that I have? A.—Will you please repeat that?

Q.—I say was any of the surplus moneys of the company in 1885 or 1886 used to make up part of this $2,565,000, because the three quinquenniums cover 15 years, so I am going back—by 1901 we have got it was all made up, was any money of 1886 used for that purpose? A.—It commenced in 1890, out of the moneys earned between 1885 and 1890.

Q.—What part of this $2,565,000 was taken out of the quinquennium period ending 1890 if you will allow Mr. Sanderson to answer.

—Mr. Sanderson answers the questions until a change is indicated.

A.—The transaction commenced with the quinquennial period commencing in 1890 and ending in 1894. I asked this question, Was any of the money that goes to make up this $2,565,000 taken out of any of the money earned up to 1890? A.—No.

Q.—Then we have got all this money was taken between 1890 and 1901, we have got down to 11 years now? A.—I would say, for practical purposes, 15 years.

Q.—I do not want practical purposes, I want accurate purposes; you say there was no money appropriated, earned during 1885 and 1890, for this $2,565,000, if I understand you? A.—That is correct.

Q.—So that up to 1890 there was not a copper provided for this $2,565,000? A.—No.

Q.—Then from 1890 or 1894 or 1895, how much of this $2,565,000 was taken from the surpluses of that period? A.—For the quinquennium ending 1894 we changed at that point from American 4½ to American 4 per cent.

Q.—What would that require, $500,000 approximately? A.—On the American experience basis it would require very much more.

Q.—You did not take that? A.—We were on American 4½ table.

Q.—And you took it on the American 4? A.—Yes.

35th day, June 5th, 1906.

Q.—Is this table correct when it says that approximately you took $500,000? A.—That is from Hm 4½ to American 4.

Q.—Is that correct? A.—Yes.

Q.—So that in that period in 1894 out of the surplus earnings from the quinquennium from 1890 to 1894 you appropriated of this $2,565,000, approximately $500,000? A.—At that point of time.

Q.—Then the next change that you made was in 1899? A.—Yes.

Q.—And you appropriated according to this table approximately $1,070,000, is that about right? A.—Yes.

Q.—That was in the quinquennium from 1894 to 1900? A.—Yes, 1895 to 1899, inclusive.

Q.—Yes, and in 1901 you took the $995,000 more?

SENATOR COX: Three separate sums taken out in one quinquennial period.

Q.—But all within those years? A.—But they are taken out of the earnings of 15 years?

MR. SANDERSON: Absolutely correct.

MR. NESBITT: What difference does it make?

WITNESS: Does not that prove it is spread over 15 years, there are three separate sums, each of these sums were taken out of a separate quinquennial period.

MR. HELLMUTH: $500,000 was taken out of the quinquennial period from when to when?—they are not three separate periods, because Mr. Sanderson says that, the first moneys that were ever appropriated were from the year 1890.

MR. SANDERSON: Yes, 1890 to 1894.

Q.—We have not any appropriation in 1905, because in 1901 they had enough money—that must have been of the earnings of two, three and four—they had enough money to make up the whole.

—Mr. Sanderson answers the questions until a change is indicated:

A.—Had we gone on from 1900 to 1904 valuing on the same basis as at 1899 we would have gone along to 1904, made a valuation at that point of time on this new basis, and the effect would have been the very same as if we had made it in 1901; there was no difference to the policyholders.

Q.—But you must have had sufficient money in 1901 to take up the entire balance of the reserve and made the change? A.—Quite so, and had the same effect.

Q.—Had you sufficient money then? A.—Yes.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—So that all the earnings of 1902, 1903 and 1904 would be earnings that would go towards profit and not for reserve? A.—You have to look at it from the point of view of the quinquennial surplus.

Q.—Is that correct, all the surplus earnings of 1902, 1903 and 1904 must be for profits, and not to make up the change in basis of reserve or else you had appropriated moneys before they came in? A.—We were able to make a valuation on the 3½ per cent. basis at the end of 1901.

Q.—And your assets were intact when you did that? A.—Yes.

Q.—So that anything you would earn after 1901 could go for profits, at all events it would not be required to make up any of this sum? A.—Yes, it would.

Q.—Then you had anticipated? A.—No, that reserve would have to be kept up.

Q.—But the reserve was then placed upon a 3½ per cent. basis? A.—Yes, that reserve had to be kept up.

Q.—That was based on 3½ per cent. basis, nothing was required for the back portions of the reserve to put it on a 3½ per cent. basis out of the earnings of any year subsequent to 1901.

SENATOR COX: The quinquennial period is from 1899 to 1904 and the earnings of these two years were all taken to complete that reserve and the earnings for the other part of that quinquennial period were distributed, $1,200,000.

Q.—Were you in a position in 1901 to say to your policyholders, Gentlemen, from this day on we do not require to take any more moneys from profits to make up the reserve on a 3½ per cent. basis, we have done it? A.—That is correct, and then for the balance of that quinquennial period we gave them $1,200,000 in cash, the balance of the earnings of the remaining part of that quinquennial period.

Q.—So that within that period without waiting until the end of the quinquennium at all, you had within the period 1894 to 1901 appropriated this large sum of two million dollars— A.—And the money that was earned from that time on has been given to the policyholders, and they got one per cent. per annum bonus for those three years——

Q.—And they would have had but for this change of interest in those 6 years for profit, had you kept on the old, $2,565,000 to divide in those six years? A.—That does not change the

fact that the profits were declared out of the profits spread over a period of 15 years.

Q.—That is so, is it not? A.—The statement that I make that it is spread over 15 years is correct, it is taken out of three quinquennial periods, but the profits made in the first two years of the last quinquennial period were sufficient to complete it, and the balance was left for distribution and was distributed.

Q.—The policyholders would have been entitled, had not you made that change in reserve, to $2,565,000 in those 6 years of the moneys that were appropriated? A.—That would have been spread over the 15 years.

Q.—They would have been entitled to the moneys that were appropriated during those six years? A.—If we had not made the change at all there would have been that much more money to distribute and the policyholders would have got 90 per cent. of it and the shareholders 10 per cent.; the shareholders contributed $256,000.

Q.—I thought, talking of the shareholders' contribution, that you said the shareholders were only getting 8 per cent. on their stock? A.—They get only 8 per cent. on their stock.

Q.—Do you expect them to get a higher rate? A.—I expect them to get 10 per cent. of the earnings whatever they may be, whether it is 6 per cent, or 8 per cent. or 10 per cent.

Q.—Or 20 per cent.? A.—It won't be 20 per cent.

Q.—I want to know? A.—Yes, they are entitled to one-tenth of the profits, and the policyholders are entitled to nine-tenths; it is a mixed company, it is what you call a mutual——

Q.—If the money was sufficient to pay twenty per cent. you see no reason why they should not get it? A.—It is as clear as noon-day; there is no question at all that the policyholders are entitled to ninety per cent. and the shareholders to ten per cent.

Q.—Have you in the past only had sufficient to pay eight per cent.? A.—We have had in consequence of this change, we have had to anticipate the earnings in order to pay eight per cent.—We have had to anticipate the earnings of the quinquennial period which we have entered on; for instance, we are now in the second year of one quinquennial period—

Q.—So that in order to pay eight per cent. you have actually had to anticipate—? A.—We have not yet, but we will before we get to the end of the quinquennial period.

Q.—You have to anticipate earnings? A.—It is earned in one sense of the word, but the valuation we made up and the surplus allotted until the end of the five years, two years have gone, and a portion of the money has been earned, but the exact amount won't be ascertained and allotted in the proportion of ninety and ten.

Q.—I understood you to say that your view of the Act was that you were entitled to ten per cent. on the profits irrespective of the earning power of the million of capital? A.—Yes, sir.

Q.—That is to say you could put your million of capital as earning the average rate of interest 4.7, and to that you add—and that would be $47,000 in round figures? A.—Yes.

Q.—To that you add ten per cent. on the entire earnings of the company less that million, is that right? A.—Yes.

Q.—You take that million of course in that case? A.—The million has not anything to do with that, the earning power of the million goes to the credit of the shareholder, and one tenth of the divisible surplus goes to the credit of the shareholder, and ninety per cent. of the earnings go to the credit of the policyholders.

Q.—You do not put that million of capital into the general hotch potch and then merely take ten per cent. of the entire earnings of the company? A.—No sir.

Q.—I think you the other day expressed the opinion that life insurance was mainly, or what it was for was the protection of the widow and family of the insured, that is the main feature of life insurance? A.—That is my view of it, and that security is the first consideration.

Q.—In that view do you approve of or advocate these endowment and investment features of insurance? A.—In my own experience in canvassing I used to recommend almost invariably the ordinary life policy, straight life, that is what I used to recommend myself.

Q.—Non-participating or participating? A.—Participating, because it gives a better result; we have a large number of participating policies where the premiums have been entirely extinguished, and where the assured is getting an annuity or has had his policy more than doubled.

35th day, June 5th, 1906.

Q.—But it was straight life with you? A.—We had all the the different tables—

Q.—Straight life was what you advocate? A.—Yes sir.

Q.—Have you had any reason to change your view as to that? A.—No, that is my judgment yet; I would recommend now if I were canvassing, and when I am canvassing I recommend to a middle-aged man or a young man a limited number of payments, so it would be an ordinary life policy so far as the payment at death is concerned, and he would pay in fifteen, twenty, twent-five or thirty years, say a twenty year payment.

Q.—But still payable at death? A.—Yes sir.

Q.—Not one that would appeal to the acquisitiveness of the individual himself? A.—No sir, my judgment would be in favor of the other policy, but there are a great many people who won't take that policy, it makes it very attractive to them to have a little element of speculation in it; every man thinks that his life is good and he is going to live a good number of years, and he will get larger profits at the end of that period than otherwise.

Q.—I have no doubt you have made out a statement showing what, if any, profit has been made by the Dominion Securities out of its transactions with the Canada Life? A.—I can give you that quite easily.

MR. WATT: I think it is in? A.—And would you care to have at the same time the profits made by the Canada Life out of the securities bought from the Dominion Securities?

MR. HELLMUTH: I have not the slightest objection to that? A.—You will find it on the right side.

MR. NESBITT: It is the difference between buying wholesale and retail, is it not? A.—I think so, I am sure it will be found the transactions between these two companies are honorable and fair and remunerative to both companies.

MR. WATTS: It is about one and five-eighths per cent. of the total securities purchased; the Dominion Securities made an average profit of about 1⅝ per cent. on the total amount of their sales to the Canada Life. There is no brokerage charge. It cost the Province of Ontario to sell their Provincial Government bonds to the Bank of Montreal 1⅞ per cent. plus ⅛ per cent. for expense.

MR. HELLMUTH: Can you give me or shall I get it elsewhere what the company pays by way of commissions on the English business, you said in your evidence to Mr. Shepley that you paid as high I think as 65 per cent. commissions on the new business in Canada and 7½ per cent. on renewals, and that you paid higher on some of the outside business? A.—Yes, sir, on American business.

Canada Life. (Hon. G. A. Cox, Ex'd.)

Q.—Can you give me any idea of how much higher you pay in the British business? A.—I will give you the scale of commissions; there are different commissions on the different plans of insurance, and I will have that prepared for you for Canada and the United States and for the United Kingdom.

Q.—Would the British policyholder coming in now and the United States Policyholder coming in now, that is since 1900 be a co-sharer with the Canadian Policyholder in the profits of the company on the business written since 1900? A.—Yes, sir, come in on the same.

Q.—Do you consider it fair that Canadian Policyholders should have to pay the higher expense to get British and American business? A.—We do not think that he will pay higher.

Q.—I thought you said you paid higher expenses in Britain and the United States? A.—The renewal commissions are not so high in Britain.

Q.—But the initial business is higher? A.—We will give the exact figures in each case.

Q.—But they do have to share at all events in profits? A.—The newer policies are all on the same basis; you could not have a different policy——

Q.—That is to say the Canadian has to take his chances with the British and United States business that is written, no matter whether that be less or more expensive than the business written here, whether it costs more or less he has to come in and share? A.—The same remarks apply to every company, and when we are in the field canvassing we have to satisfy the applicant that he gets just as good or better results from the Canada Life than he does from say a company confining its business altogether to Canada; if we are not able to do it we are not able to get his insurance, but we are able to do it; you will understand, of course, that the larger business gives larger profits.

Q.—You said the other day to Mr. Shepley, and I am not quarrelling with the statement, that of course one could not expect you would devote your entire time to the affairs of the Canada

Life for such a small sum as fifteen thousand dollars a year; may I ask you if you are not really President of more than half a dozen other companies? A.—I am not sure whether I am half a dozen or not, I am of a good many, I think you would be safe in saying that.

Q.—And I think you boast the proud distinction of being on more directorates than any other man in Canada—29 companies I saw in the directory of directors? A.—Yes sir.

Q.—The expense in the Canada Life, I do not say this is necessarily any sample, nor do I say whether it is justifiable or not, it is not for me to say, but the expense in the Canada Life in practically one item, that of general manager and President, has, I think you said, increased from $20,000 in Mr. Ramsay's time to $35,000 now? A.—That is for two men instead of one.

Q.—That is Mr. Ramsay was President and General Manager with an assistant general manager? A.—For that $27,500 was paid.

Q.—And now the two offices occupied by yourself and your son is $35,000? A.—Yes, $7,500 increase in seven or eight years.

Q.—And Mr. Ramsay, as you have told us, his annuity was taken as a lump sum, that is it was purchased at——? A.—An annuity was purchased; he receives from the company twelve thousand dollars a year, but just the same as any other person who had purchased an annuity.

Q.—The expense of that was taken out in one sum? A.—Yes sir.

MR. KENT: I do not think there will be anybody before the Commission that will be able to give me the same unbiased reply, and that is my reason for troubling you with a few questions after you have been on the stand for so long a time? A.—I will be very pleased to give you any information I can.

Q.—It seems to me from what I have already heard a young man of say 25—we will take Mr. Morrow there, supposing he wants to get a five thousand policy on his life, I believe it would be possible for him to get that policy without paying any premium whatever, and by letting that policy lapse, and going around to ten other companies he would be able to get that policy taken up on certain conditions, and consequently to get ten years' insurance without disbursing a cent—am I wrong? A.—That is getting to rebating, getting the total premium rebated. I think he would have difficulty in doing that here, but he would have no difficulty in getting a large rebate—sometimes that is done in this way, where an agent—and that is a common practice with American Companies—I do not think the same practice prevails here, but an agent may be told by the company if you will do $500,000 of business within six months we will give you an extra bonus, we will say or five thousand dollars, to illustrate the point; when he gets to $450,000 he can afford, that is the agent can afford to give away the balance of the business rather than not reach the $500,000 figure and earn his extra bonus, and that is what enables the agent to do that. I think that is done to a very great extent, because in the American Companies in these large cities they write very large amounts; I do not think the practice in Canada enables that to be done except it may be in some of the larger cities, and the manager for a district or for a Province. No doubt that same thing has been done in Canada and can be done, but I do not think that the practice is very general; we have not had any experience of that kind, we have not given any extra bonuses that would enable a man to do that, but still you will understand what I mean, that when it gets near the point of his maximum sum and the time about expiring he can afford to give away the whole premium rather than he can to fail to reach the gross amount he started out to get.

Q.—You will admit that it is possible that such a thing should take place? A.—I think it is.

Q.—Had you said it would not be possible I would have felt compelled to prove to you by documents in hand not only that it was possible but that it had actually been done? A.—I do not doubt, I have heard of it being done, I have heard of it being done here by some of the larger American Companies, and I have no doubt it has been and can be, but I just wanted to make the remark that I do not think it is practiced to any very great extent in Canada; I think it is in the larger fields, but I have no doubt it has been done here.

Q.—You are looking forward to the millenium in which the Canada Life will reach one hundred millions of new business every year, that is taking the natural rate of progression; there is no good comes unmixed with evil; when they had a large increase in the

potato crop they have the potato bug, when we began to export largely in apples we got the San Jose scale; what is the bug that is going to dog the steps of the Canada Life? You have already said this question of rebating was a modern institution, and it has arisen practically in the last we will say 10 or 15 years? A.—To a very great extent.

Q.—Let us look forward to the natural progressive rate of the next 10 or 15 years, the desire on the one hand to get as much of a rebate as he can, and the intense anxiety of the agent on the other to get that man insured no matter what it may cost, because if he does not get him the next agent will get him, he is bound to be caught—do you think it will be long before the prospective insurer will be satisfied with all the commission for the first year, don't you think it is quite likely that he will want a slice of the second year, and as the appetite increases he gets somewhat dissatisfied—I am looking forward to 15 years hence. I can see the time when the insured will want all the premium of every succeeding year, and do you think he has just as good a right to get insurance for nothing as the labor union man thinks he has a right to get paid without working—one is just as logical as the other—if a continued rate of rebate has to be given it will diminish most seriously the profit that may be allotted to future policyholders, and it may trespass to a greater or less extent on the profits of everybody concerned? A.—Yes.

Q.—That being admitted, we can pass to another subject, amongst the natural consequences of this enquiry I can see one which will flow, it seems to me, directly from it; people will say, here is the Canada Life Assurance Company, that to my mind is a regular cinch, it is a bonanza in fact, it has been built up simply by hard work, what one man has done another can do, and therefore let us start an insurance company, and let us participate in the milk and honey that is flowing around the country, why should we work hard in what we are doing when by working as hard or a little harder we can get ten times as much. If I ask, as I have asked witnesses belonging to the other companies, What is your opinion of the chances of a new insurance company to-day, I know what they would say before they said it, from the nature of things the reply could be foreseen—you are not bound by the same consideration; I look upon you, Senator, as perfectly disinterested, because if the Canada Life went out of existence to-day you would never go to the poorhouse, and I have a better chance to get an opinion as unbiased as it is posssible to get from so honorable an insurance man as you have shown yourself to be; still I believe you will give me an opinion from the standpoint of the successful business man, leaving insurance matters altogether out of the question, as a successful business man, what honestly are the chances of a new life insurance company starting to-day? A.—That is a question you wish me to answer?

Q.—Yes? A.—I think a new life insurance company starting to-day under proper management and with proper energy and ability will be a success. I think it would, but I think it is very much more difficult to make a life insurance company a success now than it was some years ago, because the competition is very keen, the cost of getting business is very high, and it is not so easy to make a success of a life insurance company starting now as it was some years ago. There is not the same opening for it, because we have some forty-four companies doing business in Canada in a population of six millions, within the last few years eight or nine new companies have been established. We have companies coming here, large companies, well-established, from foreign fields, from the United States and from the United Kingdom, and the competition in Canada in proportion, the number of companies doing business in Canada in proportion to the number of companies doing business say in the United Kingdom is very much greater; we have, as I say, 44 companies, English, American and Canadian companies, doing business in this country, and in the United Kingdom, with a population of forty millions there are only about 60 companies, competing for business. I am giving the approximate figures; so that the chances of success would not be so great here, the necessity for the new companies in Canada is not so great, because of the large number we already have: I do not think the public would get any better service than they are getting now. I do not think they would get any cheaper insurance or any better insurance if a new company were started, and

35th day, June 5th, 1906. Canada Life. (Hon. G. A. Cox, Ex'd.)

consequently I do not think the necessity for them or the opening for them is as good as it would be in previous years; at the same time I believe that there is always room for—I may use the expression always room upstairs, as they say; and if a man went into life insurance and gave it the time and attention and energy and work that it required to make it a success it would be a success; so far as my own feeling is concerned, if I were 30 years younger and starting out to make my living I would not be afraid just in the circumstances of to-day to start right into the insurance field, and build up a company and make it a success, but I would have a good many years of hard, earnest, anxious, faithful work to accomplish it.

Q.—It has seemed to me also that the item of advances to agents is in a good many cases simply a disguised method of paying them an increased commission? A.—That is the result, a man comes along, wants to be engaged as a canvassing agent, or if you are looking for a man to solicit business for you, and you think that man is a likely man to succeed, he thinks himself he can succeed if he has sufficient standing in the country and sufficient intelligence to have a fair prospect of success, it must cost him at least $100 a month to live as a man would need to live, and that is cutting it very close to go into a community and take anything like a respectable position and live as he should live, that would be the minimum sum. The least you can do with that man is to say, If you will go to Cobourg, Belleville or Brockville as the case may be and canvass for our company we will give you say 60 per cent. commission or 65 per cent. commission on your first year's business, and we will give you 5 per cent. on the renewals, and we will advance to you $100 to help you support yourself in the meantime, $100 against your commissions; if the man is successful the result is he is just working on commission, if he is unsuccessful the $100 a month, or the $300 you have advanced him say for three months, is lost, and it has to be written off. The company or the general agent of the branch has to take that risk.

Q.—I understand you yourself are of opinion that rebating will never be stopped until there is a specific law against it? A.—That is my opinion.

Q.—I will not ask you at any great length, because being a Senator the matter may come before you in another capacity? A.—I expect it will, I will be very glad to give you my opinion. As I said the other day, I think the company that permits it, the agent that grants it, and the assured that receives it, should all be punished, and that is the only way it could be stopped.

Q.—One of the main causes of dissatisfaction amongst policyholders arises, if I may so put it, from those who are no longer policyholders, those that have been compelled for one reason or another to surrender their policies. They seem to be unanimously of the opinion that no company at present existing gives them a fair show in the way of surrender value. Some of the managers already examined have ben frank enough to say that in their opinion a man ought to be fined to a greater or less extent by going off their books, that he ought to pay the cost of putting another man in his place. The general policyholder is of opinion he ought to get all that was mathematically coming to him if he had to surrender the policy for any reason whatever? A.—That is hardly fair, he should be able to do that, for this reason, if you have say a thousand lives on your books there will be 200 of them say impaired lives; if the 800 have a right to withdraw and take out all the money that was to their credit the company would be left with 200 impaired lives. I am just using this, of course, to illustrate the point, to show that it is fair that the company should retain a part of the amount actually at the credit of the individual insurer who desires to withdraw from the company. If I may leave that for one moment and say here that this $2,565,000 about which my learned friend has been questioning me closely, has gone to the credit of each individual policyholder, and if he wants to retire he gets his part of that money.

Q.—There is another point I feel some little delicacy in dealing with, it is more or less a personal matter. One of the grievances or one of the matters that the policyholders talk about a good deal, mentioned very seldom in public, and probably never to the officers of the companies, they say the chief officers of all the insurance companies are getting twice the amount they are earning; for comparison you have to take somebody whose duties require about the same amount of intelligence, and it seems to me when I ask you whether in your opinion it requires more brains to successfully conduct an insurance company than a

bank I am asking what may be looked upon as an impertinent question, and if you feel the slightest hesitancy I do not wish you to reply? A.—I have no hesitation in giving my opinion; I think it requires just the same amount of brains. I have some idea of what the general managers of our banking institutions——

Q.—It is because you have an intimate knowledge of the two that I take the instance; it is the last time I shall ask this question in the course of the inquiry, because I will admit it is an impertinent question in some cases? A.—I have no hesitation in answering it. I know general managers of a bank to get $35,000 a year, and I know of those who get larger sums than that. I know of others who get $20,000 a year in the smaller banks.

Q.—Probably you know of some that get $5,000, and that is all they are worth? A.—One man may be dear at $5,000, and another may be cheap at $40,000.

Q.—It seems to me at the commencement of your examination you said that there had been cases in the Canada Life where your confidence in the man, because he had taken a policy in the Canada Life was so great that the company had loaned him the face amount of his policy, although it had only been recently taken out ? A.—I do not think I made that statement. You must have misunderstood me; we sometimes make a loan on other security and take a life insurance policy as collateral security to it, but we never loan the full face of the policy. I think this particular case you have in your mind was where we loaned a man seven thousand dollars on one hundred shares of coal stock, which he bought at $8,600, that is he put up $1,600 margin——

Q.—So long as you say no policyholder ever got a loan on the policy simpy that is all I want to know? A.—No sir, our company and all companies have very large amounts loaned on their policies. I think we have about four millions of our assets loaned on our policies, that is the amount that was loaned is the amount of the surrender value; it is somewhat less than the amount that would be given to that man to cancel his policy, and that depends upon the age of the policy and the amount of it and so forth.

MR. NESBITT : Is not there an absolute contract in your policies with regard to that? A.—Yes, that is the practice of all companies. Of course we regard it as one of our very best investments, because it is the security of our own bonds, and if the man did not pay the interest or did not pay the loan it would simply mean he had surrendered his policy, it would simply mean he had surrendered his policy, and surrendered it for a less amount than he would get for it if he came avowedly for the purpose of surrendering it.

MR. SHEPLEY: The matter referred to is on page 978; there are a series of questions, and the transaction that was spoken of was this:

"Q.—Did any transactions to your knowledge like this take place, a person wanting to but, and not being able to put up the necessary margins, and getting an insurance policy placed upon his life with the Canada Life, and a loan made upon that in connection with Dominion Coal? A.—I might do that; I do a good deal to get a Canada Life policy."

MR. LANGMUIR: You say there is only one way to stop rebating that is by law? A.—That is my opinion.

Q.—Assume for one moment it would be found difficult to pass a law entirely prohibiting it, could the evil be minimized by fixing the amount that shall be paid as rebate at say 20 per cent.; could you make such a law effective at all? A.—I think it would be more difficult to make that effective than it would the entire prohibition.

Q.—You saw, Senator, that there was an association formed assuming there will be such a law, and these gentleman are going to fight it, whatever it may be—I suppose you saw that in the papers? A.—I did not notice that.

Q.—That has been announced, but I just wanted your opinion whether the evil could be minimized by restricting it to a certain percentage and making any deviation from that penal? A.—I am afraid it would leave the door partly open, and it would be more difficult to detect any breach of the law.

Q.—Then, I understand you are in favor of entire prohibition? A.—Yes, that is my idea.

The Commission adjourned to 10.30 a. m. June 6th, 1906.

THIRTY-SIXTH DAY.

MORNING SESSION.

Toronto, Wednesday, June 6th, 1906.

FRANK SANDERSON, sworn, examined by

MR. SHEPLEY: Q.—How long have you been with the Canada Life? A.—Since 1892.

Q.—And always in the capacity of actuary? A.—I was appointed assistant actuary after joining the company in the year 1895 and subsequently.

Q.—Who was the actuary when you were assistant? A.—Nominally Mr. Ramsay always had the title, the President and Managing Director. Subsequent to that in June, 1899, on the recommendation of Mr. Ramsay, the then President, I was appointed actuary.

Q.—What training have you had apart from the practical training you have had in the company's affairs? A.—To start with, immediately after graduation from Toronto University I entered the service of the Manufacturers' Life and was there for a few years, and subsequent to that I was in England for a time and studied actuarial science there for a time; and I might add that I am an associate member of the Institute of Actuaries, a fellow of the Faculty of Actuaries in Scotland, a fellow of the Actuarial Society of America, and member of its Examining Board, have been for two or three years.

Q.—Did your membership in these various bodies involve passing examinations? A.—In some of them; in some they did not have examinations when I entered.

Q.—In which bodies were you examined? A.—In the Institute, and partly in the Faculty.

Q.—When was it you passed these examinations? A.—Back about 1893 or 1896.

Q.—That was after you entered the service of the Canada Life? A.—Partly before and partly after.

Q.—How long did you reside in England pursuing your studies there? A.—Less than 6 months.

Q.—Since 1899 you have been in charge of that Department in the Canada Life? A.—I have.

Q.—Did your training in the Manufacturers' involve a knowledge of the science? A.—To some extent; I did not have very much knowledge at the time of actuarial science; I took up all the little actuarial work they had to do, which was not very much, and was really engaged partly in the Correspondence Department and the Actuarial Department and various branches, practical knowledge generally.

Q.—You are more or less familiar with the actuarial aspect of the company since its beginning? A.—The Canada Life?

Q.—Yes? A.—I have gained considerable knowledge of its history.

Q.—The first matter I want to take up with you is the question of the reserves from time to time; on what basis were the reserves of the Canada Life originally? A.—From the inception of the company until about 1869 the interest basis was 6 per cent., and mortality table Carlyle—Carlyle 6 per cent.

Q.—That would be up to 1869? A.—In 1870 they changed to 5 per cent., Carlyle 5 per cent.

Q.—Then that involved a strengthening as it has been called, an enhancement of the reserve? A.—Yes.

Q.—Are the records available to show to what extent the reserves were enhanced at that time? A.—No, I have never seen any. As a matter of fact I think the valuations along that period were largely made by a New York consulting actuary. I have never seen any records touching that valuation.

Q.—Then in 1870 the change—— A.—Was made to Carlyle 5 per cent. In 1877——

Q.—There was no change till 1877? A.—No, not even after that. I was going to say in 1877 the first Dominion legislation touching this question was passed, and it was upon the Hm. 4½ per cent. and the company was required to change its reserve basis at that time to 4½ per cent., at least the legislation gave the companies a period of ten years to do it in, but the company did it in three years, and in 1880 they passed to Hm. 4½ per cent.

Q.—That is the company took three years what the Act gave them ten years to do? A.—Exactly.

Q.—Was the company then working upon quinquennial periods? A.—The dividend system of the company had been an annual dividend system from 1847 to 1865. Some time after Mr. Ramsay came to this country he decided to change the dividend system from an annual one to a quinquennial one, and he stopped the annual dividends in 1865, so that the first quinquennial division of profits took place in 1870.

Q.—Just give the years? A.—1866 to 1870, and it has been quinquennial since.

36th day, June 6th, 1906

Canada Life. (F. Sanderson, Ex'd.)

Q.—The first year of the quinquennial would be 1866 and the last year 1870? A.—I think so.

Q.—Are you clear about that? A. —The fiscal year of the company ended in April at that time, not in December.

Q.—April, 1870, perhaps would be better to say; I see they run now from 5 to 9 and from nought to four? A.—Yes.

Q.—And perhaps they did at that time, perhaps 1865 to 1869 inclusive would be the quinquennium? A.—I could not be sure about that; April, 1865, would be five years.

Q.—We can speak of it roughly as the years five to nine and nought to four—those are the quinquennial periods? A.—Yes.

Q.—Then you were telling me when the Government first made it imperative that a reserve should be maintained the statutory provision was 4½ per cent., and the Hm. table, what was the difference, how did the Hm. table compare with the Carlyle table? A.—I have never made any valuations upon the Carlyle table and I have not made a special study of it, but so far as my observation goes the Hm. table required substantially higher reserves on the same interest basis than the Carlyle table.

Q.—That is the Carlyle table using the same rate of interest would not establish so substantial a reserve? A. —No.

Q.—In 1880 that strengthening of the reserve was completed, can you tell me how that was done with respect to the three years that were occupied in doing it? A.—I have absolutely no knowledge of that.

Q.—And the records do not enable you to speak about that? A.—No.

Q.—Then the Hm. and 4½ per cent. was what the Government required by way of reserves? A.—Yes.

Q.—Then what did the Company do, did the company bring its reserves to the Hm. table with 4½ per cent.? A.—It did, the valuation made at the quinquennial division in 1880 was upon that basis.

Q.—Then what was the next step in the history or your reserve? A. —Along in the nineties, early part of the nineties the interest rate fell rapidly, and as a mtter of fact even before that it was falling, and in 1889 on the recommendation of the President, Mr. Ramsay, a sum of $225,000 was set aside as a special reserve, looking towards the 4 per cent. valuation, that you say was in 1889? A.—Yes, but at the same time shortly after having gone to Michigan and the American experience table being then the law of Michigan the company adopted the American Experience table as the basis of valuation.

Q.—What rate of interest? A.—4½ per cent., that was the Michigan standard.

Q.—How did that compare with the Hm, 4½? A.—It required considerably lower reserves than the Hm. 4½ on the same basis.

Q.—It did not demand so high reserves? A.—As a matter of fact the Canadian Government practically reversed the transaction by adding to our American Experience reserve about the same amount which we had set up as a special liability looking towards the American four.

Q.—I want you to give me that a little more in detail; when was it that the American Experience table was adopted? A.—The company went to Michigan I think in the year 1888, so that there may have been a valuation made in 1888 upon that, certainly 31st December, 1899, the valuation was made upon that basis.

Q.—You are sure of that? A.—Yes, and this special reserve of $225,-000 set up looking towards the 4 per cent basis.

Q.—What was done as a matter of book-keeping? A.—Simply among the liabilities, after you enter the reserve, this special liability.

Q.—To strengthen the reserve? A. Yes, $225,000.

Q.—That was in the statement of affairs of the company of the 31st December, 1889? A.—Yes.

Q.—I think you have already said this on a former occasion, but I want to have it all brought together; please tell me just what the Government did, in what years and to what extent? A.—You mean the Canadian Government?

Q.—Yes? A.—There was no change made by the Canadian Government until the legislation of 1899.

Q.—I mean with respect to your reserves—you were telling me the Canadian Government increased the liability in your return for the purpose of restoring the Hm. 4½? A. —Each year subsequent to 1889, and while we valued upon this American table the Government would add a sum, which according to their estimate would bring the reserve up to the Government standard.

36th day, June 6th, 1906. Canada Life. (F. Sanderson, Ex'd.)

Q.—So that the liability which your return showed in respect of the reserve would be increased by the Government so as to make your return comply with Canadian law? A.—That is right.

Q.—Do you say that was done each year? A.—Yes. I do not remember offhand how long that table was kept up.

Q.—I thought you told me a day or two ago when Mr. Cox was in the box that there were two of the years — A.—It will be kept up until we adopted the American 4 per cent. standard which was 31st December, 1894.

Mr. Shepley puts in at this stage letter of Mr. Blackadar of June 15th, 1893, with statement attached —marked as Exhibit 197.

Q.—It has been already referred to, but I want to have it assembled together in your evidence—this is a letter of Mr. Blackadar, of 15th June, 1893, and no doubt written after his personal investigation of the affairs of the company here? A.—I would judge so, or at Hamilton.

Q.—"I am sending you proof of the Canada Life statement. I notice the company have again put in the reserve on the American Experience 4½ per cent. This will necessitate your adding an item, as we did two years ago, to bring the reserve up to the Hm. 4½ standard"—that is what I had in my mind when I asked you whether you were sure it was done each year—"I have therefore added to the liabilities amount added by the Department to bring reserve up to the Institute of Actuaries Hm. 4½ per cent. standard, $422,148, making the total liabilities eleven millions, etc." Then he gives the method in which that is arrived at, and in the liabilities in the accompanying exhibit he inserts amount added and so on as stated in his letter, $422,148? A.—Yes.

Q.—He says in this letter that two years before the same thing had happened; are you clear that in each year after you adopted the American Experience table that change was made by the Government? A.—The blue books would show.

Q.—The books we want will be what? A.—1889 to 1894.

Q.—What did your company do in respect of its own domestic book-keeping as the result of the Government writing-up? A.—In the reports to the shareholders I think we simply kept on the American 4½ per cent. basis plus this sum of $225,000 as far as I can recollect.

Q.—That is the $225,000 which Mr. Ramsay had set apart in 1889—we will just clear that up. (Refers to blue books)? A.—Apparently this is the first year we returned it at American 4½.

Q.—That is in 1889? A.—Yes.

Q.—You made your return of reserve, stating in a foot-note that it was upon the basis of the American Experience table mortality, with 4½ per cent. interest? A.—I do not think either the company's $225,000 or the Department's adjustment at that time was in this report; it was simply American Experience 4½ per cent. reserve returned.

Q.—And no alteration was made in the return, by the Government for that year? A.—I could not be absolutely sure now whether this $225,000 was set up at 31st December, 1889, or in the beginning of 1890. It is shown certainly here in the next return.

Q.—At all events for the moment it is probably sufficient to say that the Government made no additional charge for liability in respect of this difference in table of that year? A.—Not in that year.

Q.—The next year? A.—We reported again upon the basis of American Experience 4½ per cent. and the Department added the sum of $292,625.46.

Q.—To bring the reserve up to the Institute of Actuaries Hm. 4½? A.—Yes.

Q.—In 1891? A.—In 1891 I should say the Department themselves in that year valued the policies; that was the quinquennial year.

Q.—That was the year in which the Department valued? A.—Yes, and they would put in their own valuation, no matter what ours was.

Q.—The foot-note here says it was upon the basis of the Institute of Actuaries' table with 4½ per cent? A.—Computed by the Insurance Department as 31st December, 1891.

Q.—The next year was the year we have just been looking at? A.—It is upon the American Experience table again at 4½ per cent.

Q.—The $522,148, is that a misprint—you see Mr. Blackadar's letter says $422,148? A.—It is apparently a mis-print.

Q.—Yes, that should be $422,148 in the blue book, and the addition shows it? A.—Yes.

Q.—That is the $422,148 we have been looking at? A.—In the next year 1893 the valuation basis was again

36th day, June 6th, 1906. Canada Life. (F. Sanderson, Ex'd.)

upon the American 4½ per cent. The Department adds $439,326.91.

Q.—That would be then for 1893? A.—Yes. 1894, we come now to the time when we change our own valuation basis to American 4 per cent., and we return to the Department that liability on that basis, that of course would be above their own standard.

Q.—That involved a maintenance of a higher reserve than the Government required? A.—Yes.

Q.—And the Government made no change? A.—No.

Q.—As its reserve was larger than was required; then you say the American Experience with 4 per cent. gives you a larger reserve than the Government standard of that day with 4½ per cent? A.—Yes.

Q.—But not so high a reserve as adopting the Government table and taking 4 per cent? A.—No, sir.

Q.—Somewhere between? A.—Yes.

Q.—Was anything else done in that year besides what you have told me in respect to these reserves? A.—Nothing further was done in the meantime except each year Mr. Ramsay called attention through 1895, 6, 7, and 8 to the continued fall in the rate of interest, and I have taken extracts from his addresses.

Q.—Are you omitting anything? A.—We come to 1898.

Q.—I will have you explain this exhibit 193? A.—The valuation made 31st December, 1894, required reserves higher than the Government standard of approximately $500,000.

Q.—There you are referring to the use of the American Experience table at 4 per cent? A.—Yes.

Q.—That involved, you said, approximately adding to the reserve, what was then in reserve, $500,000? A.—Yes.

Q.—Beyond the Canadian Government standard; and in this exhibit 193 you have treated that as a step towards the ultimate placing of the reserves upon the 3½ per cent. basis? A.—Yes.

Q.—That is the theory of that statement? A.—I would not say the company just at that time intended going to 3½ per cent. basis.

Q.—But what you say is in preparing this statement you have treated it as a step towards the 3½ per cent.? A.—No sir, that was the difference between the American 4 per cent. reserve and the Government standard at that time; I would not say the company had at that in view a 3½ per cent.—

Q.—I can understand that, but when you came to make up this table you have treated it as a step towards the 3½ per cent.? A.—Yes.

Q.—You were going to tell me what took place in succeeding years? A.—Mr. Ramsay pointed out from time to time in his addresses the continued fall in the rate of interest, and I have extracts taken from his addresses from year to year.

MR. NESBITT: That would be good as a historical narration as to the rate of interest.

MR. SHEPLEY: Yes, I am going to read them,because I think they are very important as bearing on this question.

Mr. Shepley reads typewritten extracts from addresses of Mr. Ramsay, re continued fall in the rate of interest. The extracts were filed as Exhibit 198.

Q.—You were telling me when we diverged for a moment about the placing of a special reserve, or a special addition to the reserve of $225,000. I think you said that was done in 1889? A.—Yes.

Q.—No, 1899? A.—There was $225,000 set aside on the American 4½ per cent. basis in 1889, and then in 1898 we set aside this $225,000 looking towards the 3½ per cent.

Q.—1899 the Act in its present form was pased? A.—Yes, and at that time towards the end of 1899 the matter gave the company great consideration, and after looking over the whole field the world over I advised the company to get the opinions of two distinguished consulting actuaries, submit the case to them.

Q.—Who were they? A.—Mr. H. M. Manly, the then President of the Institute of Actuaries of Great Britain, and Manager and Actuary of the old Equitable Life Assurance Company of England, and Mr. D. Parks Facler, Consulting Actuary of New York, and President or Ex-President of the Actuarial Society of America. One was an English actuary and the other an American, both occupying the highest offices in gift of their fellow actuaries at the time. I submitted the facts of the case to these gentlemen.

Q.—Have you the document in which you submitted the facts? A.—Yes sir.

Q.—Let us take that and scrutinize it and see what facts were placed before them. (Statement of facts produced): I see in pencil here January, 1900— A.—I would say I

found this among my papers and there was no date upon it, but as near as I can recollect it was submitted along towards the end of 1899 or the beginning of January, 1900.

Q.—You have not told me this morning yet about a sum of $275,000, which I think you said when I asked the question before was in 1899? A.—Yes, that is the sum of $275,000 that was set aside 31st December, 1899.

Q.—Then to be historically accurate that should precede this; how did that come to be done? A.—I think the determination to obtain the opinions of these gentlemen was come to before that was actually set aside.

Q.—That was set aside in addition to $225,000 which had been set aside the year before? A.—As a matter of fact after getting these opinions from these gentlemen—we had the $225,000 set aside during 1898, and we decided to set aside the $275,000 and go from the American table to the actuaries table, that was the result of our action after getting these opinions.

Q.—We will get your submission of the case to the actuaries. This is called, "Statement of facts for opinion of consulting actuary."

MR. HELLMUTH: The $275,000 was set aside before, as you will see from this pamphlet.

MR. SHEPLEY: Mr. Facler's report on 31st January says: "I understand that one of the proposals which had been under consideration is the raising of the basis of valuation of the old business at this time to the standard of the actuaries table of mortality with interest at 4 per cent. and putting aside the sum of $275,000 in addition to the $225,000 set aside a year ago." That was one of the proposals; he does not speak of it as an accomplished fact, and you think it was not done till after that? A.—No, it was not done.

Q.—(Mr. Shepley reads statement of facts for opinion of consulting actuary) "The regular quinquennial division of profits of the Canada Life Assurance Company," etc. (Reads down to the words "should be stated as a matter of fact")—these statements as to the bonuses declared in these various years are accurate, are they? A.—I believe so.

Q.—"(Continues reading)" It should be stated as a matter of fact" (reads to the words "most serious"). Then comes a statement of the rates of interest. The Canada Life commenced in 1882 with 6.22, and in 1898 it was down to 4.65? A.—In 1899 it was down to 4.22.

Q.—"(Continues reading from statement of facts.)" In connection with the subject of interest I also quote," etc. , (reads to the words "under consideration")—what actuary was that? A.—I am not sure, but I think it was Mr. Bradshaw.

Q.—(Continues reading) "Memorandum. The total assets," etc. (reads down to the words "answer to this question"). The adoption of the Hm. table of 3½ per cent., and the immediate turning into reserve upon that basis of surplus assets would only leave a surplus of $808,000? A.—Yes.

Q.—(Continues reading from statement). The directors have had under consideration," etc.)—that is because you kept your tontine business separate? A.—Yes.

Q.—(Continues reading from statements of facts to "$25 per 1,000"). Just why the difference between $62.50 and $37.50. A.—According to the minimum policy, the rate of bonus anticipated and used in reduction of the premium, this rate of bonus was 1¼ per cent., in other words $12.50 per annum or $62.50 for the quinquennium. The rate declared or decided to be declared was $7.50 per annum or $37.50 for the 5 years. The difference between $62.50 and $37.50 would be the $25. lien on a minimum policy.

Q.—Now that is the statement of facts upon which the opinion was asked. As I understand it that opinion was being asked solely and only with respect to the proposal to add $275,000 to the special reserve and raise your reserve by adopting the actuaries 4 per cent. table. A.—That same report substantially was sent to Mr. Manley. I could not lay my hands on the exact copy which went to him, and there was a memorandum at the end there touching the minimum policy, which he did not receive, because Mr. Fackler actually came from New York to the company and we submitted further details to him personally.

Q.—The opinion you were asking was with regard to your making the total special reserve of $500,000, and adopting in respect of the old business the actuaries table with 4 per cent. interest? A.—Yes.

Q.—Then in what shape have you the opinions that were expressed? A.—As a matter of fact they are in print, both Mr. Manley's and Mr.

36th day, June 6th, 1906.

Canada Life. (F. Sanderson, Ex'd.)

Fackler's. (Pamphlet entitled "Opinions of Experts," part of Exhibit 199.)

Q.—I do not apologize for reading this, because it is necessary to an historical understanding of the matter. I am going to put the two in together Mr. Manley's report is dated the 9th of February, 1900. (Reads this Report.) What is the difference between "Hm." and the "Hm. 5 in combination." A.—The Hm. 5 is a table with the first 5 years of the Hm. experience eliminated.

Q.—Does that make the reserve larger or smaller? It makes it smaller than the Hm. table simple, does it not? A.—I think it would be smaller. I have never made a valuation under it. But I think it would be somewhat smaller.

Q.—(Reads on from "the process of the change has more frequently than not been accompanied by a fall in the bonus rate" to end of report.) Mr. Fackler's Report is dated the 31st of January, 1900 and is as follows, (reads this report). Then what was done? A.—I think I ought to say, Mr. Shepley, there that in addition to this we had the opinions not only of prominent financiers in the States, in this little booklet, but we also took the trouble to get the opinions of prominent financial men in Canada, bankers and others, and we have these before us. They were published at the time. This document was one of the documents used before the Banking and Commerce Committee at Ottawa by Mr. Fitzgerald. (Refers to part of Exihibit 199.)

Q.—Then what did you do? A.—The directors decided to adopt a valuation basis, the actuaries 4 per cent., and to set aside this $500,000 previously referred to, as a special reserve and to make the distribution of profits upon that basis.

Q.—That is the distribution of profits for the quinquennium ending with 1899? A.—Yes.

Q.—The result was the declaration of a bonus or profits to the extent of ¾ of 1 per cent. A.—Yes.

Q.—That bonus was to the end of 1899? A.—The quinquennium ending 31st December, 1899. In 1901 we found that the accumulated surplus for the first 2 years of the new quinquennium enabled the company to make a valuation upon the Hm. 3½ basis. We might have gone on accumulating certain sums of money as special reserves, valuing upon the previous basis, until the end of 1904, but as a matter of fact, the surplus being sufficient, we simply made the valuation upon the new basis, there was no distribution of profits coming in the meantime and there was no reason why it should not be done, no disadvantage to policyholders by not doing it at once, nobody was suffering because no distribution was due until the 31st December, 1904.

Q.—What you say is that as there was no distribution due until December, 1904, and as the surplus had accumulated at such a rate as to enable you to write up your reserves, the policy was adopted of doing that at once, A.—Yes.

Q.—I do not want to go into it too closely just now, but that, of course, would affect the profits which would be available for distribution in 1904. A.—Yes.

Q.—To the extent which you depleted the surplus. Then since the completion of the quinquennium ending December 31st, 1904, you have no embargo upon your profits in respect of that raising of the reserve? A.—Not on those old policies.

Q.—And your new business written since the 1st January, 1900, has all been written upon a still higher basis, on the 3 per cent, basis? A.—We have been holding an Hm. 3 per cent. reserve in respect of the new business since 1900.

Q.—And in respect of that you have charged the higher premiums? A.—Yes, the premiums were raised about January 1st, 1900. The old premiums were abandoned and a new set of rates adopted.

Q.—That is for all new business? A. Yes.

Q.—Of course, you did not alter or affect in any way the premiums upon the policies written prior? A.—Not at all.

Q.—Were the premiums in respect of the new business fixed with reference to the Hm. table with 3 per cent. for how was that? A.—The rates adopted were really Hm. 3½ per cent., the uniform rates adopted by the Canadian companies, but, as is quite a common practice, the company is holding actually a 3 per cent. reserve out of that. A little later on we adopted tables upon a 3 per cent. standard and the bulk of the business for recent years has been written upon this 3 per cent. basis.

Q.—Can you fix the date when you changed from the 3½ per cent. pre-

mium to the 3 per cent.? A.—The 1st January, 1903.

Q.—Up to that date your premiums were all fixed with reference to a 3½ per cent. rate? A.—Yes.

Q.—With respect to the new business? A.—Yes.

Q.—And after that date, you said a moment ago, the bulk of the business was with reference to a 3 per cent. basis? A.—No, this Canadian uniform rate is still nominally in use , but almost all the business is written on the higher reserve premium.

Q.—What do you mean by almost all the business? Do you insure A, charging him a premium fixed with reference to 3 per cent., and B., charging him a premium fixed with reference to 3½? A.—Yes, a man may choose either of these different policies. They are different contracts. The 3 per cent. contract would call for much larger privileges.

Q.—A larger premium and you say larger privileges? A.—Yes.

Q.—That we can discuss when we come to the discussion of your policies. The statement as I understand it is this, between 1900 and 1903, premiums fixed with reference to 3½ per cent. uniformly? A.—Yes.

Q.—Since 1903 an option given to the insured whether he will pay a higher premium fixed with reference to 3 per cent. and have greater privileges or pay the old premium and have the old privileges? A.—Yes.

Q.—Then let us see that this memorandum is clearly understood. Your memorandum is "had the company continued to value upon the Government basis. policyholders and stockholders would have been paid or credited with additional profits up to 1907 as follows, in 1904 $500,000 approximately." Just explain that? A.—We did not have two valuations at that point to ascertain the exact difference. But there were two valuations a year or two later, so that we approximated very closely to what it actually would have been had we had the two valuations.

Q.—The two valuations being what you have spoken of with regard to the adoption of the American Experience 4 per cent.? A.—Yes.

Q.—If that had not been adopted and your reserves written up in that respect, your estimate is that approximately half a million dollars would have been free for distribution at the end of that quinquennium? A.—Yes.

Q.—Which was not distributed? A.—Yes.

Q.—Then with reference to 1899 you have about $1,070,000 approximately. Is that the sum of money that was taken out of the actuaries 4 per cent. then adopted, leaving the ¾ of one per cent. bonus divisible? A.—What is your question again, please?

Q.—You have described to me how, after taking the opinion of these actuaries and the opinions of other people, what the company did was to take the actuaries 4 per cent. table as the method of valuation for its old business? A.—Yes, then this proceeds on the assumption that if we had not strengthened the reserves in 1894 that sum would have been available for distribution, this $500,000, and assuming that it had been distributed and we come along to 1899, the difference between the Government standard and the basis upon which the distribution was actually made———

Q.—That is the actuaries 4 per cent? A.—Yes, would have been this sum $1,070,000.

Q.—If you had not put into reserve that approximate half million dollars at that time, but had distributed it, then you would have had this? A.—Yes, that would be the difference between the basis adopted and the Government basis, less this interest on this amount previously distributed.

Q.—Why less interest? A.—Because this was the actual difference between the valuations, but this amount, the $500,000, would have been paid away.

Q.—And you would not have earned interest upon it? A.—Yes.

Q.—Then in 1901 $995,000 is estimated, less interest upon the whole million and a half, presumably withdrawn. Was that the sum put into reserve by writing it up to Hm. 3½? A.—That is the difference between Hm. 3½ and the Combined 4, the actuaries 4. The actual difference between the Hm 3½ and the Combined 4 would be $500,000 more than this. We actually had this $500,000 set up.

Q.—Then that takes into consideration the $225,000 and the $275,000 we have spoken of? A.—Yes, that is right. The total makes up the $2,-565,000.

Q.—Then the three sums, that for 1894, that for 1899 and 1901 make up a total of $2,565,000? A.—That is the amount required to pass from the Government standard to the new Hm. 3½ per cent.

Q.—That is to pass from the standard which you were using prior to 1894? A.—No, that is from the Gov-

ernment standard? A.—Yes, the on that basis.

Q.—Yes, you are right about that. By reason of proceeding from one Government standard to the new Government standard? A.—Yes, the amount required.

Q.—Then you put it in another way; "this $2,565,000 was the excess of the company valuation in 1901 over the valuation by the Government standard and may be analyzed as follows:

First, excess of American 4 per cent. reserves over the Hm. 4½ $898,000 approximately.

Second, excess of Actuaries 4 per cent. over American 4 per cent., $400,000 approximately.

Third, excess of Hm. 3½ and Hm. 3 per cent." Why is that inserted, Hm. 3? A.—Because this valuation was made———

Q.—To pass at the end of 1901? A.—Yes.

Q.—And therefore, includes? A.—Some slight excess reserves on account of the two years' business.

Q.—The two years' business on which you were reserving at the rate of 3 per cent.? A.—Yes.

Q.—The difference is $1,267,000. Have these last figures you have given been calculated or just estimated? A.—They are very closely approximated. The last is exact.

Q.—Because there was a valuation then in fact? A.—Yes

Q.—Then you have summed it up in this way: "the monies originally required to make these changes were:

For the first change in 1894 $500,000 approximately.

For the second change in 1899, $352,000;

And for the third change in 1901 $1,267,000. Or a total of $2,119,000. A.—As a matter of fact, of course, in here there is $500,000, which was set up there, in 1899, so there is really $500,000 of this which goes in, the 225 and 275 which you were speaking about.

Q.—Had that not better be corrected? A.—It is there, sir.

Q.—"The company anticipated the third change by setting aside the special sums of $225,000 in 1898 and $275,000 in 1899." Just do that so that we will see the effect of it. Plus $500,000 and minus $500,000, $852,000 in 1899 and $767,000 in 1901? A.—Yes.

Q.—The difference between $2,119,000 and $2,565,000 is accounted for by the fact that the former sum has been accumulated so as to produce the latter sum at the time of the writing up of the reserve? A.—Yes.

Q.—Now we have the history of these reserves and I have some questions to ask you about the method that was adopted. Do you agree with the statement made in one of the opinions we have, that the strengthening of this reserve ought to have been made at the expense of the old policyholders? A.—Certainly, unquestionably.

Q.—Why? A.—The fact that it became necessary to change to this new reserve basis meant that the company should, or shall I put it this way, if the foresight of the directors had been as good as their hind sight they would have gradually over a series of years, have been setting aside reserves on these old policies and they would have arrived at this same basis which we had to come to after we knew the facts. That is the common practice of British Companies.

Q.—What you say is that assuming that the directors had made provision with respect to the fall in the rate of interest and any other circumstances that made it necessary to build up the reserves, that would have been done by withholding from the policyholders all these years a sum which would compensate for that? A.—Yes, and as a matter of fact that was being done by prominent companies in other parts of the world. Our company went along disregarding to a certain extent the rate of interest and we had to do, perhaps a little rapidly, what might have been done more slowly in the previous quinquennial period.

Q.—Would the policy of strengthening the reserves have been a policy which would be desirable to follow apart altogether from the legislation? A.—We would have done it apart entirely from the legislation. Unquestionably. As a matter of fact when we passed to the American 4 per cent. standard there was no compulsion then from Ottawa, because their standard was lower.

Q.—Then we have seen what was said by Mr. Ramsay at these various meetings and what was said at the Board meeting later on. Is there anything more to be added to that with respect to the considerations which the company gave the question before the legislation, what have you to say as to the matter being discussed and a policy being laid down? A.—Well, having got the opinions of these consulting actuaries.

Q.—No, I mean before that date because you were telling me that apart altogether from the legislation, which took place in 1899, your Board would have done what was subsequently done by way of strengthening the reserve as a matter of general policy and not because they were under any compulsion. A.—That is indicated by the addresses of Mr. Ramsay, which were read by you, and by the setting aside of these special sums of $225,000, for instance, in 1898, that was $225,000 over and above the American 4 per cent. standard, which was as we saw some $500,000 in excess of the Canadian Government standard.

Q.—There is a letter in that connection that I want to ask you about. A letter which is in our possession, dated the 31st May, 1890, and written by Mr. Ramsay to a gentleman named Wilson. "Yours of yesterday to hand, as to profits on policy" number so and so. "When we declare profits at 31st December, 1894, if this policy is in force it will then be entitled to a 5 years share. You ask why the profits upon this occasion are a trifle less than they were at the last division. This is readily explained by the fact of a reserve of $250,000 having been retained on account of the probable change to a basis of 4 per cent., which we think the Government will ere long require the Company to adopt." What is he referring to there? A.—This $250,-000 was it? A.—Apparently, yes. above the American 4 per cent. I do not know whether I called it 225 or 250. Possibly I called it 225.

Q.—I think you did. At all events that was the sum and it was $250,-0000 was it? A.—Apparently, yes.

Q.—Then starting with the setting apart of this $250,000 and with the alteration in your table, and following that up with the setting apart of the $225,000 and the $275,000, your answer to me is that that gives what you know of the attitude of the company towards that question? A. —Yes, the directors would, from their knowledge of the fall in the rate of interest have taken this course entirely irrespective of any action on the part of the Government.

Q.—What objection can be urged against the course of gradually raising these reserves and not passing dividends at all? A.—Well, my answer would be that I think we did do it gradually.

Q.—You had a very large sum to put into reserve in order to bring your business to the 3½ per cent. basis? A. —Yes, as a matter of fact, when the Government Bill was first introduced the period was very much shorter, and had the Bill gone through as first introduced we would have had to do it in a much less period.

Q.—As the Bill was you had really 15 years in which to do it? A.—As it finally went through, but we commenced you see, some 10 years prior to the Government action.

Q.—So much the better I should have said for following up the policy of doing it gradually? A.—Well, we took the advice of the best experts we could obtain.

Q.—There is nothing in Mr. Fackler's opinion to prevent your adopting the gradual policy? A.—I certainly think there is, sir. He said that he thought we certainly should not adopt any less conservative course, and Mr. Manley advised the complete passing of the bonus, so that we think we pursued a moderate course taking into account all the facts.

Q.—What difference would it have made in the final result to the company if you had adopted the gradual course and written this up say at the rate of $100,000 a year? A.—I think the net result would have been to produce less profits for the policyholders in the end. The sooner you get your reserves up, the more earning power you create.

Q.—Supposing you start with 100 policyholders in 1890 and supposing you have 75 per cent. of them in 1900, then in 1910 some of those will have disappeared? A.—Yes.

Q.—Those who disappear before 1910 will have borne the whole brunt, so far as their policies are concerned, of this increase in the reserves and the making good will be to those who survive, isn't that so? A.—Yes, but in reply I would say that those same policyholders had extremely large bonuses declared upon their policies in the past and they could have no just cause to complain.

Q.—But so did the others who are going to reap the future benefit of this large increase in investments. Is there not a differentiation in the treatment of policyholders of the same class? A.—Well, you might apply the same remark to the recent action of the Standard Life which has just passed its entire bonus for 5 years.

Q.—I am not afraid to ask you to criticize that? A.—We think our

36th day, June 6th, 1906. Canada Life. (F. Sanderson, Ex'd.)

course was moderate compared with that.

Q.—Because the Standard Life did it that does not stop all criticism, of course? A.—No, but this is the recognized British method.

Q.—Then do you agree with me that there is that much to be said at all events that the policyholders who survive benefit at the expense of the policyholders who do not survive? A.—Yes, but the same objection would apply to the strengthening of the reserves at previous periods.

Q.—No doubt, and that, if it is an evil at all, is an evil which must be minimized as much as possible, and you would minimize that as much as possible by adopting the gradual policy? A.—Yes.

Q.—What is to be said, Mr. Sanderson, about a matter which is mentioned here (Pamphlet, Opinion of Experts, Exhibit 199.) Mr. Fackler says, "along with this I understand that it is also proposed to omit the usual quinquennial bonus to shareholders." A.—At each prior quinquennial division the shareholders were allotted a bonus, and on this occasion it was decided not to give the shareholders any bonus.

Q.—I do not see that bonus in your answers to our questions? A.—Yes, you will find it in the list where we speak of the rate of dividend declared to stockholders. You will find in one place there the mention of a bonus.

Q.—That is a long time ago? A.—Oh no, within the period we are discussing.

Q.—There was one bonus of $25 per share paid, that is a 50 per cent. bonus, paid on the 1st of April, 1895. That is the only bonus I have seen there at all? A.—Very true, if you go back further, to the prior quinquennial period you will find the same. If you had 1890. This is for 1895.

Q.—What you say is that I would have found that same bonus if my questions had extended further back than 15 years? A.—Exactly.

Q.—Then you say that is the bonus that is referred to here, the quinquennial bonus to shareholders which was spoken of and which was in fact passed on this occasion? A.—Yes, the shareholders got no bonus.

Q.—The ordinary dividend was paid to the shareholders? A.—Only the ordinary dividend.

Q.—Then at page 6 of the pamphlet containing the opinions (Exhibit 199). Mr. Manley says, "by valuing on the basis of 3½ per cent. interest instead of 4½ per cent. there will be more profit from interest and less from loading, which in the earlier years of a company would produce a smaller surplus in consequence of the smaller amount of the funds; but after the company had existed for 20 years the surplus would be larger in consequence of the increase in the profit interest on the funds exceeding the increase in the profit from the loading." What does that mean? A.—When you change say from an Hm. 4½ per cent. basis to an Hm. 3½ per cent. basis, your new net premium will be higher, so that you have, so to speak, eaten into your loading by reason of the new valuation basis. You lose from loading but on the other hand you gain from interest.

Q.—The loading goes for expenses and does not earn interest, while the net premium goes up in investment and earns interest? A.—The marginal loading is depleted because it requires a higher net premium. That is there will be a saving of interest, but the gain from interest will not, for a period, for a number of years offset the loss from loading. Mr. Manley put that at the period of 20 years. From a calculation we have made we would put it at a shorter period.

Q.—What period would you put it at? A.—It would vary from about 12 to 13 years. Of course on these old policies there would be a gain in interest. He is referring specially to new policies taken out. It would take, say, 12 or 13 or 14 years for the interest to overcome the loss in loading.

Q.—You have provided in your gross premium for the loading in respect of expenses to be borne in the years following the change in reserve? A.—Yes, but the marginal loading on those premiums is depleted by reason of the change in the valuation basis.

Q.—On the same principle won't that apply to old as well as to new business, won't there be that same depletion in the loading? A.—Yes, certainly, but there will be some gain from interest in these old policies because the reserves have already passed this 12 or 15 year period, and the gain from interest commences there.

Q.—Now, do you say there is any operative gain from interest commencing until you have actually put the additional sum in reserve? A.—No, not until you have made the change.

Q.—Then if you have made the change in 1900 or 1901 you cannot expect the depletion in loading to be overcome by the increase in profit interest for 20 years or for 13 or 14 years, according to your idea? A.—I

would say **12 to 13 years from the commencement of the policy.**

Q.—Why from the commencement of the policy when you are not commencing to get the profit interest increased until 1900? A.—Because we change the whole reserve at once, and on these old policies the gain from interest by reason of the large reserve will more than off-set the loss from loading.

Q.—Then what you say is that when you strengthen your reserve, your reserve is strengthened by making an allowance which calculates interest from the date when the reserve ought to have been higher? A.—Yes, bring it up right from the beginning.

Q.—You bring it up from the beginning, that is the date of the policy? A.—Yes.

Q.—That is you calculate a reserve to-day as if you had started at that rate of interest at the beginning of the policy? A.—Exactly.

Q.—Then you say, if a policy had been on foot 12 or 13 years, or 20, according to Mr. Manley, it is already, by reason of the change in reserve, earning more interest than the depletion in the loading? A.—Yes. I might say, that is why the British companies strengthen the reserves from time to time, it is largely with a view to maintaining their rate of bonus to policyholders. If they let their rate of interest run down, their margin of interest, their profits to policyholders will, of course, fall away and they keep up this margin of interest; the rate differs between the rate assumed in the valuation and the rate actually earned, with a view of maintaining their bonus to policyholders.

Q.—There is another passage in Mr. Manley's opinion. After he has made his calculation, he says: "There is a difference of $30.67 on a thousand dollar policy to come from somewhere" and he says "It can only come out of the past undistributed profits or profits yet to be earned. If the company has refrained from providing for the change before its net rate of interest has fallen to a 4½ per cent., it would seem to be in a somewhat parlous state and would have to make the change graduallly, absorbing in the process all or a large portion of the nominal profit made in the meantime." Your company had only made a partial provision for this change? A.—Yes.

Q.—And why then was it not a company to which this language applies, it would have to make the change gradually? A.—Because the company was not in the position of the hypothetical company there described. As he says later on we had a substantial surplus and were not in the parlous state of the company to which he refers.

Q.—He is not speaking here of the surplus, he says, "If the company has refrained from providing for the change before its net rate of interest has fallen to 4½ per cent.?" A.—I would take it that he meant by providing, accumulating a surplus.

Q.—I would have thought accumulating a surplus for the purpose of division was not accumulating reserves for the purpose of strengthening the reserve? A.—Either leaving it in accumulated surplus or having a special reserve set aside gradually.

Q.—Do you take this to mean that if the company is able to make the change in one year by passing a bonus, that that is what he recommends? A.—I think so.

Q.—Could you make me a calculation, or perhaps you have it made, showing what would have been the effect upon your quinquennial distribution of profits since 1899 had you adopted the method of equalizing over the whole period fixed by the statute? A.—I am afraid that would take a considerable time to arrive at.

Q.—Would the bonus distributions in respect of each quinquennium have been substantially affected if you had adopted that means and taken the whole 15 years? A.—We would have declared gradually smaller bonuses. It would have been a sort of sliding scale downwards, and people get tired paying debts slowly and they would just as soon pay them and get rid of them.

Q.—But policyholders get tired of having their obligations discharged slowly too? A.—Well, we think our policyholders, as a whole, approve of this course.

Q.—You think, as a whole, they do? A.—I think so.

Q.—I have not met that class in the course of this inquiry yet? A.—Well, I have met a good many. Naturally, of course, you meet the other class.

Q.—There is a good deal, of course, in that, I suppose? A.—This is the other side of the story. "They are satisfied." (Pamphlet.)

MR. NESBITT: I think I can hardly ask Mr. Shepley to put that in by way of explanation.

36th day, June 6th, 1906. Canada Life. (F. Sanderson, Ex'd.)

MR. SHEPLEY: Then is there anything in this aspect of the question. Mr. Sanderson; if you had deferred until the statutory periods making the alterations, would you not have affected a lesser number of policyholders? A.—Possibly. But the legislation did not proceed on the basis that the companies should or would take that time. It simply said there is a fixed period of time within which all companies must come to that basis.

Q.—But you would have been absolutely complying with the statute if you had taken the 10 and 15 years? A.—Yes. We would not be complying, though, with the best actuarial advice.

Q.—And you would have produced this result, would you not, that you would have affected the profits of the minimum number of policyholders, because of course, in 1910, a great many of these policies would be out of the way and in 1915 a great many more? A.—I don't think there is any virtue in the special period of time fixed by the Government. 15 years is no better than 10 or 20 years. Why not say 20 years? There is no virtue in 15 years.

Q.—At the end of 20 years would you affect fewer policyholders than if you did it at once? A.—Well, I would say the best actuarial advice was in the other direction and the practice of the best English companies would lead us to do as we did.

Q.—If you will leave the practice and the advice out of the question and just answer that, if you please. Is it true, without any qualification, that by taking the 10 and 15 year periods, you would affect the minimum number of policyholders? A.—That is true, but at the same time the company—

Q.—Won't you give it to me without qualification? A.—No, sir.

Q.—It is true? A.—It is theoretically true, but practically the company was not earning at that time a 4½ rate of interest and it would be utterly unjustified at going on at this rate of interest for a further period, valuing on that basis.

Q.—The valuing on that basis is only for the purpose of producing a technical solvency, is it not? A.—Yes, but the valuing on a higher basis—

Q.—You would not have any difficulty whatever as between the company and your policyholders in discharging all your obligations without writing up the reserve? A.—It could have been done, but we think on the whole the course we pursued was the best.

Q.—I want to see what criticism can be made of it and I am sure you will answer me candidly about that. Is it not a desirable thing that you shall disturb the least possible number of policyholders? A.—I think disturbances generally are a good thing to be avoided.

Q.—Then you would say yes to that? A.—What is your question again?

Q.—Don't you think it is desirable to disturb the interest of the least possible number of policyholders? A.—Yes, but we have to take into consideration the whole body of policyholders and not any particular few who may go out now or die within a year or two.

Q.—I want you to take into consideration the whole body. Won't you disturb the least number if you take the gradual policy? A.—My answer is that we did pursue a gradual policy.

Q.—If you pursued a more gradual policy? A.—If we had taken the full period of time?

Q.—Yes, if you had taken the 10 and 15 years you would have affected the profits of the least possible number of policyholders? A.—We commenced 10 years sooner than the Government and finished the process proportionately sooner than the Government required.

Q.—That is not what I have asked you. I do not think you have any objection to answering what I have put to you? A.—There is no doubt that if the company had done it more gradually, a man who went out, died or surrendered, would have been in a better position had it been done slowly, there is no doubt about that.

Q.—And the policyholders who would have been affected would have been the policyholders in force at the time you finally complied with the statute? A.—Yes, we could not tell who was going to die or surrender.

Q.—I am not saying it was done for the purpose of favoring anyone, but that is not the point? A.—We cannot make any change without disturbing someone in any company.

Q.—A result of the course that was taken was to retain in the hands of the company a larger sum for investment? A.—Yes.

Q.—Then $875,000 was practically at the same time called up on the capital? A.—Yes.

Q.—Would it have been possible to have devoted that capital to the

strengthening of the reserves? A.—I don't know of any argument or reason why that would be justifiable.

Q.—Do you know of any reason against it? A.—I know of no case—

Q.—The people who put up this capital were getting a much larger sum out of which to earn dividends, and they were getting a much larger sum by the strengthening of the reserve? A.—I come back again to the position that these reserves should have been put up in the first place over a prior period of years by the policyholders.

Q.—But the want of foresight was the want of foresight on the part of the directors, not of the policy holders? A.—But the policyholders take that risk in every company.

Q.—So do the shareholders? A.—No, the shareholders take the risk of getting a certain share of profits. Just as Mr. Manley put it in his opinion there, the change will have to be borne by the policyholders and shareholders, and the shareholders did their part of it.

Q.—They passed a bonus? A.—No, they did more than that.

Q.—What else did they do? A.—This $2,565,000 which was required to change the reserves, had that been distributed the shareholders would have got the benefit of that. $250,000 odd went right over to the credit of the policyholders.

Q.—That is they lost that 1/10th besides providing the 8 per cent. which they did not lose but went towards providing a bonus which was passed? A.—It went towards strengthening the reserve. It would have been a very large bonus.

Q.—The refraining from tolling the 10 per cent. compelled the passing of the bonus to the shareholders? A.—Yes.

Q.—That was the only effect it had? A.—There was that $250,000 odd which they gave up and that went to the credit of the policyholders.

MR. NESBITT: They absolutely gave up $250,000 which has gone into the reserve and never can be got back again? A.—No doubt.

MR. SHEPLEY: How do you mean?

MR. NESBITT: Why, that must be so. You do not mind my interrupting you?

MR. SHEPLEY: I do not mind at all, but the argument seems to me fallacious.

MR. NESBITT: They were entitled to $250,000 odd to be distributed to them. They did not get that. Instead of that it is handed over into another sum, it is allocated to a place from which they can never get it back, under the Act. They can get back only the 10 per cent. on what that may earn. Instead of getting that $250,000 that I am entitled to, I give it to you the policyholder and I can get back only the interest on it.

MR. SHEPLEY: What greater effect has that than passing the bonus?

MR. NESBITT: The greater effect is that I do not get it at all. Speaking as a shareholder, I will never get a cent. I have made a vicarious sacrifice of myself for the benefit of the policyholder and this is the thanks I get, daily abuse and a threat to forfeit my capital, if my friend Mr. Hellmuth was to have his way.

WITNESS: Then this document is a valuation basis of the British companies brought down to date.

MR. SHEPLEY: I think it perfectly proper that that should be put in. Mr. Sanderson has had prepared the valuation basis of prominent British companies. You have not omitted any that are of prominence? A.—I think not, sir.

Q.—I do not see the company that is on the 2 per cent. basis? A.—There are quite a number of companies at the first that are on 2½ per cent. Mr. Manley speaks of one or two, but since that date there must be 8 or 9 companies on the 2½ basis.

Q.—I thought he spoke of 2 per cent. There are 2½, 2¾ and 3 and 3½? A.—That company on the 2 per cent. basis, the Hand-in-Hand has, I think, been taken over by another company.

Q.—What is the date of this statement? A.—It is from the latest publications from England.

Q.—How is that affected where different tables are used? I see the O.M. table is used by some. The O.M. 5 What difference will that make? A.—Just as before when speaking of the H.M. and H. M. 5. The O. M. 5 would, I think, bring out reserves slightly less than the O.M.

Q.—The same as the H.M. 5 A.—Yes.

Q.—What is English No. 1? A.—That is a table sometimes called English No. 1, sometimes called Far's table. A table very old and based not upon life insurance companies experience but upon the population experience. It is a table which has been abandoned long ago by all the best companies.

36th day, June 6th 1906.

Canada Life (F. Sanderson, Ex'd.)

Q.—I see it is being used by the Standard now? A.—They have abandoned it.

Q.—Does that produce a lower or a higher reserve? A.—It would bring out a materially lower reserve than the H.M. table.

Q.—Do you say the Standard has abandoned it? A.—Yes, they have adopted the new O.M. table.

Q.—But you have it here? A.—Yes, since that publication was issued.

Q.—What was the date of that publication. A.—It would be in 1905, I think. It is only in the last few days that the Standard Life has decided to pass their bonus.

Q.—Now, if you will take these tables and let us have a little explanation of them. This is in respect of assets and this is an illustration of the growth of the funds, that will come next, and the growth of new business and expense ratios. We will take them in that order. This table is called percentages of individual to total ledger assets? A.—Yes, this shows the manner in which the company's funds are invested, by percentages. I did not prepare that. It is one of Mr. Watt's Exhibits.

Q.—You have decreased call-loans in these 5 years very considerably? A.—Yes.

Q.—You have increased your holdings in railway and miscellaneous bonds and in stocks substantially? A.—Yes.

Q.—That is probably sufficiently explained. (Exhibit 201). One of the actuaries of the Department has called our attention to the fact that in giving his evidence, Mr. Harvey, you know Mr. Harvey, of course? A.—Yes.

Q.—Mr. Harvey said this at page 667: "I might also add that if the system of valuation that we have here in Canada and the States was applied in its integrity to the British business half the companies would probably be insolvent, because they could not stand the reserves. In other words the requirements in this country and the States are far more stringent than in England." A.—I do not think I can characterize that too strongly as absolutely fallacious. The reserves in England are materially higher than in the United States and Canada. He is absolutely wrong.

Q.—He says in another place, "The valuation of policies in Great Britain is very elastic in its working. It is left very largely to the company. Q.—And it publishes the way it values? A.—It has to under the law." A.—I cannot understand that.

Q.—You cannot understand Mr. Harvey having made a statement of that sort? A.—I cannot.

Q.—Mr. Harvey of course had not been in practice in England for a good many years? A.—No, I believe not.

Q.—He may have been speaking of a previous date? A.—It is true that away back in 1870 and prior to that the valuation basis of many of the British companies was somewhat weak. They were actually valuing upon what was called a gross premium valuation basis, but since '70 and along to the present the very reverse is the truth.

Q.—Then this table, Mr. Sanderson, "an illustration of the growth of funds." That is not the growth of investments but of funds? A.—Representing a group of policies.

Q.—You have taken 3 policies at the age 35, whole life, 20 payment life and 20 year endowment. The premiums are respectively, $28.10, $38,15, and $52.05. The whole life policy premiums less expenses are a minus quantity at the end of the first year? A.—Yes.

Q.—And at the end of the 2nd year? A.—A positive quantity. This is the actual fund in hand.

Q.—You paid out the whole of your first premium in expenses and $7.03 besides? A.—Yes.

Q.—That is the first column. Then the next column is the fund at the beginning of each year. I think I will leave that until we come to the profit and loss statement. What is this? A.—An exhibit showing the new business of the company from '98 to 1905, and for the same years the total expense of the company. This column gives the ratio of new to old business, showing a gradual increase in the ratio of new and old business.

Q.—That is Exhibit 196. Then 186? A.—This is an exhibit which Mr. Hellmuth referred to yesterday.

Q.—That takes the various Canadian companies, gives their net premium income, total income, general expenses and ratio? A.—Yes.

Q.—I think you said when Mr. Hellmuth was examining, that that was sure to be misleading, that it was not reliable at all? A.—Yes.

(Adjourned at 2 o'clock).

36th day, June 6th, 1906.

AFTERNOON SESSION.

—Resumed at 2 P.M., June 6th, 1906.

—Examination of Mr. Sanderson continued:

MR. SHEPLEY: Q.—You have a copy I think of this profit and loss statement for the year 1905? A.—Yes.

Q.—This gain and loss exhibit is made up upon a somewhat different basis in one respect from the profit and loss statement that you have been accustomed to make for the Insurance Department in Minnesota? A.—Yes sir.

Q.—Explain in what respect it is different? A.—It differs in separating the first year from the rest of the business.

Q.—In asking for this exhibit one purpose was to separate the cost of the first year business from the cost of other business for the purpose of testing the soundness of your explanation; the first item is loading first year premium,state what that is—it is $77,758.80, what is it in point of fact? A —That is the leading upon the first year's premiums upon the valuation of the company.

Q.—That is all that is left of the gross premium after taking the net premium out? A.—Yes.

Q.—What has been done, the policy of your company with respect to that loading, do you load with a view to meeting expenses only, or do you load with a view to providing some margin for profit? A.—Of course with profit policies have that in view, although I do not know that there is any specific sum included in the loading for that purpose.

Q.—How do you arrive at the loading? A.—The loading on these uniform premium rates is on the basis of the Hm. 3½ net premium, and the loading on the Hm. 3½ premium is 20 per cent. plus $3 for nearly all the plans.

Q.—That is you take your net premium, you calculate 20 per cent. upon that and increase that by $3, that is the loading? A.—Yes.

Q —Is that the loading in respect of all classes of participating? A.—No, this higher premium policy which you were speaking of this morning based on a 3 per cent. interest is graded down, it is a graded premium, highest at the youngest ages and graded down to the older ages. The premium is really made with competition in view; as a matter of fact the loading of premiums nearly always have some relation to actual rates in competition.

Canada Life. (F. Sanderson, Ex'd.)

Q.—In the case of the high premium policy, how do you arrive at the loading, what is your formula? A.—It is simply the addition of a percentage upon the net premium graded as I say from age 21 down, the highest percentage being at 21 and the lowest at the oldest age.

Q.—What do the percentages range from and to? A.—34 per cent. at the youngest age and down to about 20 per cent. at the oldest age.

Q.—And do you add any fixed sum to that? A.—No.

Q.—You just take the percentage? A —On endowments of course it would be somewhat less.

Q.—Is there any difference in non-participating business as to the loading? A.—The non-participating premiums are loaded 15 per cent. on the whole life policies.

Q.—That is a loading at all ages? A.—Yes.

Q.—Is there any other information that I should get from you with respect to the method in which you arrive at this loading which you have not given me? A.—No sir, that covers the whole situation.

Q.—The next item is net expected death losses in the year 1905 in respect of policies issued in that year, $54,780, less net actual death losses in that year in respect of such policies, $36,398, or a saving of $18,382. That I think differs in some respects from the way in which you have been accustomed to make up your profit and loss statement? A.—Yes, that really covers only the half year. It is mortality, so to speak, on six months of the business. The policies issued in 1905 would average half a year in force.

Q —What you have been accustomed to do is, as I understand it, to take into consideration all the death losses in a whole year, going back for instance in 1905, taking in half of 1904? A.—In our own practice it has not been separated in this way, there has been no occasion.

Q.—You have on the second page of this exhibit dealt with that differently? A.—We put it in as a matter of information merely to the Commission.

Q.—I want to bring out and emphasize the difference between the methods; what you have done in the second page of the exhibit is to give the net expected death losses in the year 1905 in respect of policies in their first year of insurance? A.—Yes.

Q.—That makes the apparent saving very much larger? A.—Yes.

Q.—The results according to that is $109,355 expected, and then the actual

death losses in that year in respect of those policies $50,844, making a saving of $58,511. In the profit and loss statement you have been asked to prepare on the first page the result is the same in the end, because the expected death losses in respect of old insurance would be proportionately increased? A.—Yes.

Q.—So that you would get the same total but— A.—Distributed differently

Q.—What do you say as to the enquiry to find out what the business of 1905 has cost you, which is the sound way to do it? A.—I think the second exhibit would be the fairest.

Q.—That does not tell you what the business of that year has cost you—that brings in the considerations of the business of the preceding year? A.—The second exhibit I think will show what the mortality gains on the business for 1905 were, and the premium is for the year and the expenses are for the year.

Q.—But it won't give you in a separate form the mortality gains in respect of business written that year? A.—Some of these policies of course would be issued in 1904, as you say.

Q.—And therefore the alternative method of writing the account would include savings in mortality, which ought really to be applied in making good the losses on the business of the previous year? A.—Yes, I suppose that is true.

Q.—We will follow out the main exhibit, having explained that difference; you have then in respect of the two items of loading and savings in death losses a total of $96,140.80? A.—Yes.

Q.—That is all the provision that has been made in respect of the premium income of that year for paying the expenses of the business written that year? A.—That includes the loading plus the mortality gains.

Q.—And that is all you have in respect of the business of that year to make good whatever the expense may be? A.—Yes.

Q.—Your business written during 1905 cost you $545,430.36, or $449,289.56 more than the provision you have for paying the expense out of that year's income? A.—In that connection I would say the division of the expenses as between the first year and subsequent years is a matter largely of opinion, and different persons making up this statement would make it out in different ways. I think we have shown a good deal more of the expense in making up this against the first year than some of the companies would.

Q.—How did you get at the first year's expense? A.—You will notice in the details at the foot.

Q.—What you say is you have treated yourself rigorously in arriving at what first year expenses are? A.—I think so.

Q.—In the first place you have put in all commissions upon the premiums for the first year of insurance $252,565.22—that is right? A.—Yes.

Q.—There is something generous about that; the next is bonuses, prizes, awards and allowances to agents, that is in the nature of commissions $1,769.85? A.—Yes.

Q.—All advances to agents $1,561.98, I want you to explain that? A.—By our system we have in the head office, very little, if any advances to agents, our contracts are with the branch managers and any advances to agents which are made are really made by those branch managers, and they take the responsibility of that.

Q.—And that does not enter into this item at all? A.—Only in so far as it may come in in other expenses through the general commissions.

Q.—You have included everything of that sort in the commissions to your branches? A.—Yes, there was one small case which was secured.

Q.—This was advance made by head office? A.—This was an advance made to one particular agency; it was secured by a charge against the renewal of that agency. It is a very small amount.

Q.—The next is, medical examination fees and inspections $26,373.09? A.—That would be largely arising out of first year's business.

Q.—Then you have put in a group certain proportions of head office expenses—50 per cent. of branch expenses—what do you say about that? A.—That is a matter of opinion, for instance with regard to the rents and postages and various items, clerks' hire, it is very difficult to determine what has reference to first year and to subsequent years' business.

Q.—Is it fair to measure that by taking the proportions of the volumes of money coming through the branch? A.—In some agencies it would, and some not; a new agency probably it would be, in an old agency where there is a large volume of old business to look after it would not be.

Q.—The work to be done in the new business is larger than the work to be done in respect of the old business,

it is more onerous work? A.—Yes, but in a large agency where for instance, take the question of division of profits, there is a very large amount of work thrown upon the staff at the branch offices in connection with that, and these rents and so on of these branch offices it is difficult to determine how much belongs to new and how much to old business.

Q.—I can quite appreciate the difficulty of that and I do not know whether you intended, and you have not at all events so far said you think 50 per cent. is too much? A.—I could not tell definitely where it lies, I do not know that there is very much too much.

Q.—I suppose if you were not writing new business you would hardly keep these agencies at all? A.—No.

Q.—Their reason for existence is the extension of your business? A.—Yes.

Q.—Would it be proper to charge nearly the whole of the branch expenditure to that? A.—On the same principle you could say that if a company were not doing any new business there would be a very much smaller renewal commission, which is in all these cases put in as a charge against the renewal business, you have to treat it as a going concern.

Q.—At all events what you have done is to take 50 per cent., and I do not understand you are at all saying that is too much?,A.—I am not specially quarrelling with the percentage.

Q.—I dare say in making this statement it was not desired to show the first year business to a greater advantage in the matter of expense than the facts would warrant? A.—I think that was probably the effect of it.

Q.—45 per cent. of salaries, etc. at the head office—why only 45 per cent.? A.—I think you will find in these exhibits generally that that is probably a larger percentage than is generally allowed. We would have to have our head office. We would have to have a staff whether or not we do new business.

Q.—But you would not have nearly so large a business if you had no new business, and I suppose the actual duties performed by the staff in respect of new business are very much greater than those performed in respect of old business? A.—Not altogether, you would be surprised the amount of work there is in connection with old business, loans on policies, division of profits, and people writing in for information and investments, and there is a very large amount of work in connection with old business.

Q.—You put it at 45 per cent.? A.—I think that is rather an excessive amount.

Q.—You think that is as much or perhaps more than is customary in arriving at a profit and loss statement? A.—I think so.

MR. KENT: There is a flat contradiction between that testimony and the testimony of the President who said if here was no new business the company would require hardly any expense whatever.

MR. McCARTHY: That was in renewal commissions.

MR. KENT: He said the expenses would be practically nothing.

WITNESS: I understood him to say the field expenses.

MR. HELLMUTH: I think he said they would be about 6 per cent. instead of being 29.

MR. McCARTHY: That is another proposition, because that is expense ratio; this is of the office staff.

MR. SHEPLEY: I think we will assume for the present that that 45 per cent. is not excessive as applied to new business; 50 per cent. of rents, what rents were those? A.—That would include all rents, including the rents of the head office, the amounts charged for the use of the head office.

Q.—That is putting it upon the same basis as the branch expenses, the 50 per cent? A.—Yes

Q.—Why do you say 50 per cent. of that and only 45 per cent of the salaries, why were they put upon a different footing? A.—The rents include both the head office and the branches, included in the amount here are the actual rents of the branches, and it might be said these were perhaps more for new business than the salaries in connection with the prior items.

Q.—You have 60 per cent. of advertising, printing, etc., that seems to be a very low percentage, is not nearly all your advertising in connection with pushing your new business? A.—Not altogether, because we spend a good deal of money in publishing our annual reports and sending information to our policyholders. The annual reports are largely for the information of our policyholders, and we send them publications from time to time.

Q.—Is not a very considerable proportion, a very preponderating proportion of the amounts spent for advertising in respect of pushing the busi-

36th day, June 6th, 1906.

Canada Life. (F. Sanderson, Ex'd.)

ness and getting new insurance? A.—In connection with last year there were special expenses connected with the old business—printing and postage, which are considerable items, and these of course have reference to the old business, so that from the point of view of printing and postage there is a considerable amount there due to the old business.

Q.—Taxes on new premiums, etc.? A.—That of course would be entirely applicable to the new premiums.

Q.—50 per cent. of miscellaneous items, what are those miscellaneous items? A.—They are charges other than those included under those specific heads.

Q.—The total of these items that you have given in detail here is $263,160.22; those added altogether, including the commissions total $545,000? A.—That would total up to $545,430.36.

Q.—That is a very high proportion which the cost of procuring this new business bears to the premium income in respect of it? A.—Yes, unless we take into consideration the special circumstances of the company.

Q.—What do you mean by that? A.—I have in my mind the fact that a company in rapidly extending and expanding in business and especially our business in the United Kingdom and United States, and it is not possible to compare a company when it is in that transition stage with a company when it is in the normal stage, fairly.

Q.—Do you speak of your progress towards the acquisition of new business as being in the transition stage? A.—I would say there has been a large extension of the business in recent years entailing a large cost; that is explained by the President in his evidence.

Q.—You used the word transition, you are going to get into some condition in the future that won't be this present condition? A.—Exactly.

Q.—What is that condition going to be? A.—What I mean to say is we have not in mind—the fact that our extension of business is largely completed and we have not in mind much further extension of the business entailing much further cost.

Q.—You mean occupying greater territory? A.—Yes.

Q.—You have not much intention of occupying greater territory than you now occupy, and what about, in the territory, increasing your business? A.—I should say we would be more disposed to consolidate than to extend; that would be my thought at least.

Q.—Is that a point on which you and the President do not see eye to eye? A.—I think it would be correct to say that.

Q.—Your idea would be after you had occupied the field to be content with normal increases in the business? A.—That is my thought

Q.—The President's view is he should be more aggressive than that? A.—Yes.

Q.—As we want to get something practical, which view is going to prevail? A.—I suppose it may be determined practically by the results of this Commission.

Q.—Supposing this Commission never sat as they did, there would have been the same difference of view? A.—Well, I think I have a longer hold on the mortality table than the President has.

Q.—That is one way of putting it; the president is not showing any signs of giving up control? A.—Apparently not.

Q.—To speak seriously about it, I suppose it may be taken for granted that the policy of the company for the present at all events will be to go on increasing the annual writings of the company? A.—I would not say that, I doubt very much if that will be the case.

Q.—Can you in respect of the business which has been increased so rapidly in the last few years, give me an idea of what would have been normal increase as compared to that? A.—Of course if you go back to 1898 our business was a little over four million dollars of new business paid for; at the present time it is about thirteen millions, so that there has been a very rapid increase in the new business. A normal increase would lie some place between these, it is difficult to say just what a normal business is, it depends largely on the conditions under which you are acting, and the conditions of the country generally, what might be a normal increase under one condition might be abnormal under another.

Q.—If you had increased at the rate of half a million yearly would that have been normal? A.—To my mind that would have been about a normal increase.

Q.—That would be about a normal increase in the advance in new business? A.—Yes.

Q.—Mr. McCarthy suggests that perhaps you have not in view the present conditions, the opening of the foreign fields? A.—No, I have not.

Q.—You are speaking of the occupation of territory in 1898 as it was then, and then normal increase upon that? A.—Yes, that is what I have in view.

Q.—Supposing you tell us about the present condition; Great Britain and the United States are now occupied? A.—Yes

Q.—And you say you do not think it is the intention to cover more geographical territory; what would be the normal commencing with now, what would be the normal rate of increase, about the same? A.—No, I should say that we would not extend, write so much more new business in the next succeeding few years as in the recent few years, the rate of increase would not be so large.

Q.—What would be a normal rate; that is a normal rate which is due to the popularity and good management of the company and is not brought about by high pressure? A.—Yes, that would be a normal increase?

Q.—That is $500,000 a year? A.—It might be more and might be less according to the conditions.

Q.—That is about what you expect to be a normal increase in such a business, the desirable increase of such a business? A.—You may put it that way.

Q.—Am I putting it the way you are putting it? A.—I would not object to that way of putting it.

Q.—If that were done would the ratio of first year expenses to premium income for the first year tend to level itself? A.—It would tend to decrease

Q.—Tend to decrease the expense? A.—Yes sir.

Q.—Have you made any calculations upon that at all? A.—No, but it is I think obvious on the face of it that that would be the result.

Q.—State the reasons why that would follow? A.—If you have your field occupied and simply doing normal business and not extending rapidly, and entailing expenditure for which you do not receive any immediate premiums it is obvious your ratio of expense will not be so large as under the other condition.

Q.—You are not straining every nerve to write all the insurance you can, you are not spending so much effort, and therefore not so much money? A.—Yes.

Q.—Do you know of any instance in which the ratio of first year expense to margin provided to meet it, or available to meet it is so great as it is in the case of this statement? A.—I think this statement requires a special explanation in that respect; owing to the change of valuation in the basis and the holding of 3 per cent. reserve on these premiums which are on the 3½ per cent. basis the margin of loading is reduced, while the prospective gain from interest will be increased, so that there is a temporary loss from loading and a prospective gain from interest. If you take a company like the Travellers' Life, which has changed all its old business as well as new to a 3½ per cent. basis you will find its ratio of expense to loading very large, very much larger than ours, so you have to take into account both factors, both the loading factor and the interest factor.

Q.—You say here you have a depleted loading owing to the alteration in your reserves? A.—Yes.

Q.—That is the premiums which you are collecting provide certain loadings which are not available if you increase the natural premium? A.—Yes.

Q.—You told me this morning that in respect of the new business written since you adopted this policy, since 1900 inclusive, your premiums for a certain proportion of the time were computed at 3½ per cent? A.—Yes.

Q.—Although you were providing for a reserve at 3 per cent? A.—Yes.

Q.—Why was that done. why not fix the premium with reference to a three per cent rate? A.—That has something to do perhaps with our business in Great Britain, because when you go to transact business in Great Britain one of the first questions they ask you is what is your valuation basis, and they think a good deal more there of the valuation basis than they do of the amount of business you write or various other factors, and for the company to have a strong valuation basis such as we have puts the company in a high estimation among the intelligent insuring public.

Q.—That is a perfectly good reason for writing your reserve upon a 3 per cent. basis, but so far as I can at present see it does not at all answer the question as to why you do not also fix your premium upon a 3 per cent. basis? A.—The premiums have been issued, you cannot change the premiums on policies already in force.

Q.—I am talking about new premiums? A.—With regard to a with-profit premium most of these are 3 per cent. premiums.

Q.—You told me there was a period from 1900 to 1903 as to which you were fixing the premium on 3½ per cent.

basis and fixing the reserve upon a 3 per cent. basis; it is in respect of policies of that class I am asking you the question; why did you not calculate the premium upon the rate of interest you calculated the reserve? A.—It was not necessary, and in fact it is not the practice of many companies to value their policies on the same rate of interest as the premiums are calculated upon, in fact you will find many British companies valuing on a 2½ per cent. rate of interest, and their premiums may be calculated on 3 or 3½ or even 4.

Q.—Is not the necessary result of that to deplete the loading? A.—Yes, it is to maintain profits to policyholders, that is why it is generally done.

Q.—Has the fact that your premium is a little lower that way than it would be the other way anything to do with it—you would have to have a longer premium if you fixed it with reference to a 3 per cent. basis? A.—Yes, that is true.

Q.—Has that anything to do with the reason why you deplete your loading instead of increase your premium? A.—No, I think not; I think it is largely done for prudential reasons.

Q.—One part is done for prudential reasons, that is the calculation of your reserve at 3 per cent., but the other is for a different reason, surely it is not for prudential reasons—prudential reasons would be so far as the company is concerned, and the maintenance of the loading, that would be all for fixing your premium on a 3 per cent. basis? A.—You take our old business, we are valuing that upon a 3½ per cent. basis.

Q.—I am only asking you about the new business? A.—That is the question?

Q.—I think you have said, but not without qualification, the inevitable result of making that difference in the premium is to deplete the loading? A.—Yes.

Q.—The loading is already insufficient? A.—Yes.

Q.—And it is not prudential to deplete it? A.—Looking into the future the net result would be, in strengthening the reserve, for the benefit of the whole company.

Q.—You are still looking at only one limb of the question but not at the other; I am granting all that by writing your reserve at 3 per cent., won't you say if it is prudent to fix your premium at 3½ it will be still more prudent to fix it at 3, so as to preserve the loading? A.—You have to keep competition in view, you cannot do in practice what you would like to do in theory.

Q.—Would it or would it not be prudent to make such a provision in the calculation of your premiums as would give you an effective and intact loading? A.—We are working towards that, as I say—

Q.—Then it is desirable? A.—Yes, if you can get it practicable, but I am trying to indicate that in actual practice you can not always get the premiums into effect.

Q.—You are trying to work towards that? A.—Yes.

Q.—And the result of that will be to give you greater premiums when you have it accomplished? A.—Yes, as a matter of fact premiums are very largely fixed by competition.

Q.—You have the advantage in competition at a lower premium, and you have the disadvantage in your internal economy, of the depletion of the loading? A.—Yes.

Q.—The renewal premium loadings during 1905 were $478,101.85, and the expenses excluding taxes, repairs and investment expenses were $354,111.49; so that you had a surplus there of $123,989.63; is that about normal according to the history of your company, or is there anything extraordinary about that one way or the other? A.—I think that would be about normal.

Q.—Then you have the net expected death losses in respect of old business occurring in 1905 $1,043,281.02; the actual death losses $781,399.06, or a saving of $261,881.96; what do you say of that, is that normal? A.—That is about the way the mortality runs.

Q.—That is about the way you have found it to run? A.—Yes.

Q.—That shows the mortality is only 75 per cent. of the expected mortality? A.—About that.

Q.—Is not that extraordinarily high? A.—No, I think not, for a company as old as our company is. As a matter of fact on old business it would run much more than that.

Q.—I did not mean whether the actual mortality was exceptionally high, but is not the saving excessively high? A.—The saving of $261,000 is over a large area of business much larger than perhaps you have had under observation.

Q.—If only 75 persons die where you expect 100 to die is not the saving abnormal, or have you found that to prevail in the history of the com-

36th day, June 6th, 1906. Canada Life. (F. Sanderson, Ex'd.)

pany generally? A.—Taking the whole company and looking over a period of the last 5 years that is about the way it runs, but if you analyze it closely you will find on old business it will run a good deal higher, and on recent business less, so that is a sort of average over the whole business.

Q.—That is your mortaliy in respect of the new business, as one would expect, it is not so great as in respect of old business; you have brought those Minnesota reports, I want you to just show me the corresponding item in two or three of these years. This is for the year 1904, what was the actual mortality as compared with the expected mortality? A.—1904, about 73 per cent.; 1903, 71 per cent.; 1902, 65 per cent.; 1901, 76 per cent.

Q.—That does not tell the same story, because in that are combined the mortality savings both of old and new? A.—Yes.

Q.—And probably the better showing in that is due to the fact that there is a greater saving in mortality in the new business? A.—Yes.

Q.—And in respect of the business of the Canada Life is there any reason to suppose the mortality here will be more favorable than it is found to be elsewhere in other businesses? A.—This is the public mortality experience of the Canada Life which I took out in 1895, and the mortality is there compared with the mortality of other companies, and of standard tables published in Great Britain and America, and the net result of this in a word is that the mortality experience of the Canada Life is exceedingly favorable as compared with that of other companies, and with other standard experiences.

Q.—Is that the result of accident or is that the result of good selection? A.—I would think it is largely the result of good selection coupled with the fact that Canada is a very healthy country.

Q.—And perhaps you won't maintain that advantage now you have gone out of Canada? A.—Yes, I would, because we only transact business in the northern States, we do not attempt to do any business in the southern States nor in tropical countries; our business is confined to Canada, the northern States and to Great Britain.

Q.—Then there is another question I want to ask you about that saving in mortality, how would that compare with the O.M select tables, what are your actual results as compared with the O.M. select table? A.—If this comparison had been made upon O.M. table there would have been a larger margin of savings.

Q.—That is the O.M. select table does not give so good results? A.—This new table brings out a lower rate of mortality, but it calls for exceedingly high reserves; if a valuation were made upon the O.M. table it would bring out reserves higher than upon the Hm. table.

Q.—At present I am only concerned with the question of mortality? A.—There are the two sides.

Q.—It shows as to mortality? A.—It would show a larger saving if the basis were upon the O.M.

Q.—I suppose as a company gets older and its business gets older there is less saving in mortality unless indeed you keep bringing in young and fresh lives? A.—Yes.

Q.—Perhaps I may just read this to you and see if you agree with it—you know Mr. A. G. Hemming? A.—No sir.

Q.—This is an observation offered at the meeting of the Institute of Actuaries, 8th December last, Mr. Hemming made this observation: "Looking at the first section it was remarkable that, although the experience extended over fifty years, and the average period of exposure worked out at 8.36 years, which compared not unfavorably with the Hm. figure of about nine and a quarter years, the resulting mortality table was not so reliable as one would expect at first sight, owing to the large proportion of young and recently-selected lives included in the observations"? A.—I think that would be correct.

Q.—What is the total margin for new and old according to your statement; I have not myself added them up? A.—Loading alone $555,860.65.

Q.—And the total of expenses? A.—$899,542.

Q.—That is where you combine the two loadings and the two expenses you still have in excess of expense over loading in those proportions? A.—Yes.

Q.—Are there not life insurance companies in business that keep within their loadings? A.—Well, if we were to value— come again to the question of valuation, and what you say is true—

Q.—I suppose in the first instance, and first of all it comes back to a question of fixing your premium at such a

36th day, June 6th, 1906. Canada Life. (F. Sanderson, Ex'd.)

figure as will enable you to pay expenses? A.—Yes; where a company is doing a large new business it is not likely it will be able to keep within its loading in doing business in Canada.

Q.—What is the reason for that; your reply inferentially answers my question which was whether there were not companies that do keep within their loading? A.—It depends partly on the valuation basis and partly upon the amount of new business, the ratio of the new business to the old.

Q.—Let me give you two or three from this report (Exhibit 195). The Equitable of New York, 99; Connecticut Mutual Life, 85; Metropolitan Life, 91; Massachussetts Mutual, 75; the Mutual Life, New York, 98; New York Life, 94; North Western Mutual, 81; Chicago is a little bigger than you are, but Canada Life is 162, and Chicago Life 171? A.—The Travellers' Life is a very good position, and in somewhat the same position as we are with regard to valuation basis; what was their ratio?

Q.—I suppose if you go on writing business in excess of the normal increase of which you have spoken, as long as you go on you will maintain that high ratio? A.—I think so.

Q.—You cannot in other words work at high pressure without spending a great deal more money than your premium income will be? A.—No, at the same time there will come some compensation from the other factor to which I have referred, to our change of valuation basis.

Q.—You will always expect to have your expenses greater than your premium income so long as you pursue the aggressive policy that has been pursued during the last five years? A.—I think that will be the effect. I think I ought to say if we were valuing upon a 4½ per cent. basis our loading would be about $750,000 more than it is.

Q.—Your premiums are upon the whole rather low as compared with other companies? A.—Yes, and that is an additional reason why some of these companies which you have mentioned are able to keep within their loading. The old premiums were exceedingly low and the margin of loading is small—

Q.—And your loading is correspondingly low? A.—Very small; they have very much larger margins to work on than we were—in fact a few years ago we were selling 15 payment life policies for what the American companies were selling a 20 payment life.

Q.—The next item you show another loss? A.—That is on annuities.

Q.—That is the difference between the net expected annuity claim, $48,989 and the actual annuity claims $59,666.05 or a loss of $10,668.05; is that usual in the experience of the Canada Life? A.—I think I ought to explain there that we did not transact annuity business for very many years until 1900, we commenced to do annuity business; the company did annuity business years ago but they gave it up because they could not get adequate considerations for the annuities; they gave it up for many years and in 1900 we commenced the business again, because we felt the time had come when we could get better rates; the result is, being a new annuity business not many of the annuitants have died and there is a consequent loss, there is suspended mortality at all events.

Q.—In other words the time has not come at which you would expect to make the gain on the annuity? A.—It is just a reverse case of what the mortality is in insurance.

Q.—That would be made up by the excess of interest— A.—If one considerable annuity were to fall in it would change the whole transaction pretty near.

Q.—That I suppose will be made up by the excess of interest on the funds paid for the purchase of the annuity? A.—The time will come when the thing will right itself.

Q.—Your revenue in the way of interest, dividends and rents received during 1905 was $1,403,865.94. Taxes, repairs and investment expenses for 1905, $187,746.47; credited to special funds, $55,417.76—what is that? A.—There are two items in there, one is a credit of the interest to what we call our instalment policies, policies which have fallen in and are payable by instalments, and we require to credit a portion of interest to them to keep it up to the proper level.

MR. LANGMUIR: Is not any portion of that $187,000 taxes, repairs and investment expenses charged to the first year?

MR. SHEPLEY: Mr. Sanderson is not responsible for that; we are responsible for having excluded that, you will see.

MR. LANGMUIR: I thought a portion of that should be added to the $545,000?

36th day, June 6th, 1906.

Canada Life. (F. Sanderson, Ex'd.)

MR. SHEPLEY: This is looked upon, whether it is right or wrong, it is looked upon by us as a charge in respect of the management and the investment of funds rather than as a charge upon the operation of the company.

Q.—What other fund? A.—That is interest carried to the shareholders.

Q.—You had to lay apart to make good the reserve in that year $929,892, so that after taking those three sums off you had a net surplus income of $230,809.71? A.—Yes.

Q.—Is that margin over the reserve a satisfactory margin? A.—I think by comparing that with other companies you will find that very satisfactory.

Q.—It is about 20 per cent., is it not? A.—It is about eight-tenths of one per cent. on the ledger assets; I think in a previous case you had substantially lower.

Q.—So that of course is in respect of the reserve that you have to write up, the reserve you have to establish or maintain, in respect of that you are putting that part at a 3½ per cent. basis? A.—Yes, 3½ and 3.

Q.—Then the next item in the account is profits from sales or maturity as per schedule, less losses from sales or maturity as per schedule; those schedules I will take up.

—Mr. Watt produces chart.

MR. SHEPLEY: Will you explain this chart to us, Mr. Sanderson? A.—This irregular line represents the actual cost of insurance.

Q.—That is tracing the interior irregular line? A.—Yes. The blue would represent the savings, and the red where the actual mortality runs over loss expected. For instance page 21 say to 23 to 28 the actual mortality over-ran the expected, whereas from 28 along to about 56 there was a large saving in mortality; there is a point there about 56 to 59 say where the mortality overruns in that year the expected, and there is a gain again from about 60 to 68 a saving; then from about 72 to nearly the end of the table there is a loss.

Q.—The ages are marked at the top and bottom? A.—Yes.

Q.—And these are the— A.—Sums assured.

Q.—This blue represents savings? A.—Yes.

Q.—Just follow out the expected line, is it the outer line—it is the outer line so far as the blue is concerned, it is the inner line so far as the red is concerned? A.—Yes.

Q.—That is the expectation during whole life— A.—During our experience for that year 1905, expected cost of insurance; we get these up every year.

Q.—Have you another, let us look at another. (Chart for 1904 produced); this is like the other only the loss at the earlier years is much smaller; and then at about the same period there is a loss between say 61 to 69; there is a slight saving like the saving in the other chart and then a loss again? A.—Yes.

—The charts were not put in as exhibits.

Q.—Then your profits and losses on investments?

MR. SANDERSON: It would be better to get those from Mr. Watt; I do not know anything about them in detail.

Q.—You have a duplicate of that exhibit I think, profits and losses on investments? A.—Mr. Watt will have that.

Q.—In 1905 your profits on the turnover of securities—what is it given in the statement? A.—$74,380.14.

Q.—I want to just analyze that a little as a specimen of the nature of these profits; you turned over some Niagara, St. Catharines and Toronto Railway shares at a profit of $1,125.

—The following answers are given by Mr. Watt until a change is indicated.

A.—That is right; 25 shares of bonus stock we had in connection with the purchase of bonds.

Q.—You had some Port Arthur debentures, and what did you do with those? A.—Sold them; we bought a block of $100,000 and sold a portion.

Q.—You sold $1,000 of those at a profit of $20? A.—Yes.

Q.—Imperial Rolling Stock Bonds, $32,000, you sold at a profit of 761.60? A.—Those were bonds maturing first November of last year, they were sold at 4½ per cent.

Q.—Netting you a profit of $761.60? A.—Yes.

Q.—Sarnia Debentures, $10,000 of them, realized a profit of $37.50? A.—I may say in connection with those they are all short-term debentures and it has been our policy to convert short-term debentures into permanent.

Q.—Sarnia, Uxbridge, Wingham and London Debentures, on all these you realized profits under $100? A.—Yes.

Q.—Canadian Northern First Mortgage bonds, £10,000, you realized $973.34—those were sold? A.—Yes.

Q.—$150,000 of Montreal Light, Heat & Power Company bonds—you made a profit of $3,750? A.—Yes.

36th day, June 6th, 1906. Canada Life. (F. Sanderson, Ex'd.)

Q.—Parkdale Debentures was that a sale? A.—Yes.

Q.—On $30,000 of Parkdale Debentures you sold so as to realize a profit of $3,405? A.—Those were bonds we bought in 1876 to yield us 6 per cent., we sold them on a 3 7/8 per cent. rate. They matured some time this year.

Q.—Union Electric Light Company of St. Louis, bonds, $100,000, you sold at a profit of $3,705? A.—Yes.

Q.—What is that, "Rights on Twin City stock?" A.—We had 600 shares of Twin City stock in which we were entitled to new allotment and we sold the rights to that allotment for $292.50.

Q.—You call that a profit? A.—Yes, because if we had taken up the stock and we sold it we would have had that profit.

Q.—Laclede Gas Company of St. Louis Bonds, $100,000, you turned over some bonds of that company to that amount and made a profit of $250? A.—We exchanged those bonds for Portland General Electric Company bonds for the same amount. It was exchanged on the straight basis. These were sold at 105½ and the Portland bought at 103, having paid 105 for the Laclede bonds.

Q.—So that you consider on the transaction you had you made this profit out of the Laclede bonds? A.—And got a bond of the same calibre at a lower cost.

Q.—$13,000 of Stratford, Ontario, Debentures $262.20? A.—Those were some bonds of a company guaranteed by the City of Stratford; that was bought out by the Massey-Harris Company, they asked to redeem the bonds, and that was the profit.

Q.—St. Thomas Bonds, small profit; London Bonds, a small profit; 200,000 Canada Atlantic bonds, sold at a profit of $2,995.35—were those long-term bonds? A.—They were falling due in January, 1905; five per cent. bonds, they were sold at 4½ per cent.

Q.—How long had you held them? A.—We bought them in 1904, we bought $1,300,000 of them in that year, and we sold practically all of them.

Q.—Then you had $200,000 of them in 1905 which you sold at a profit of $2,995.35? A.—Yes.

Q.—£8,500 Japanese Government Bonds, you sold them at a profit? A.—Yes.

Q.—1,600 shares Huron & Erie Loan & Savings Company, $1,282.16.

Q.—Two shares Central Canada Loan & Savings Company? A.—2 shares I bought from some estate.

Q.—You sold those at a profit of $12; then $250,000 Sao Paulo Tramway Light & Power Company bonds. $10,765.25; Wellington, Grey & Bruce Railway Bonds, $330.92; Twin City Rapid Transit Company, $7,512.06 profit; Canadian General Electric, $857.75; Mexican Light & Power Company Bonds, $23,547.50—that is the largest item in the account? A.—Yes.

Q.—Then you had £25,000 Grand Trunk Pacific Railway Company Bonds, which we have already heard about, sold at a profit of $5,286.17? A.—Yes sir.

Q.—$100,000 of Toronto & York Radial Railway Company Bonds, sold at a profit of $3,331.25; 71,000 Dominion Coal Company Bonds, sold at a profit of $2,421.64; so that those were your total profits made upon the turnover of investments? A.—Yes. I may say it has been our policy to turn over shortly maturing bonds in favor of longer terms, always looking to an increase in the rate of interest.

Q.—You only made one loss on a turn-over in 1905? A.—The Province of Quebec 3 per cent. inscribed stock, $150,000, a loss of $4,000.

Q.—What was the trouble with that? A.—It was the low interest bearing security, and gradual falling in price. We could make up that loss in increased interest rate in one and a half years by investing in other securities.

Mr. Sanderson answers the questions until a change is indicated.

Q.—Upon those two items, profits from sales or maturity, and losses from sales or maturity, you made $70,380.14? A.—Yes.

Q.—Then increase of market values and decrease of market values, you have said as per schedule as to both, and given the result? A.—I just got that from Mr. Watt.

Q.—Then, Mr. Watt, I will have to ask you about the details of that item.

Mr. Watt answers the question until a change is indicated.

A.—That is an increase in market value of securities over the market value of securities on the 31st December, 1904.

Q.—You say as per schedule, but Mr. Dawson says we did not get any schedule? A.—Yes, we sent them; that is the schedule.

Q.—Explain to me what this is? A.—Schedule D is bonds owned by the company containing the book value, the par value and the market value.

Q.—Where do we get the increases

36th day, June 6th, 1906. Canada Life. (F. Sanderson, Ex'd.)

between 31st December, 1904, and 31st December, 1905? A.—There is market value over book value at the end of 1905. (Last page of schedule). There is the market value at the end of 1904; the difference is $146,000 about.

Q.—Give it exactly; is that the figure that should be filled in here in this statement? A.—$155,949, the difference of $10,000 is in 1904, Mr. Blackadar cut $10,000 off the value of our Electrical Development Co. bonds and stock, reduced our valuation, and that makes a difference of $10,000, making that $392,000 instead of $402,000; the difference would be the $155,949.

Q.—That is this does not reproduce Mr. Blackadar's depreciation? A.—No, if you look at the government return you will see it is correct.

Q.—Will it be possible for you as we stand here to give me the list of those which have been so treated? A.—Increased?

Q.—Yes? A.—There will be a change of some kind in almost every security, because a municipal bond having one year to run the market value would be less than it had been a year before, and there will be an increase in the market value of stocks, and you can compare that by taking the rate used on Bank of Commerce stock in 1904, the rate used was 167 against 170 in 1905; Dominion Bank 263 in 1905 against 251 in 1904; and so on through this list. That is the way that is made up.

Q.—That is the way that can be ascertained? A.—Yes.

Q.—And the total was according to your books, $155,949? A.—Yes sir.

Q.—That was the increase? A.—Yes; there would be decrease for instance in municipals as they were approaching maturity? A.—Yes.

Q.—Then those would be written down? A.—Not necessarily written down; the rate used is practically the same, that is they are on the same yield basis throughout, but a difference in the discount or the premium on the bond; the yield rate being the same throughout.

Q.—I do not want to travel over the ground, it was fully gone over by Mr. Hellmuth yesterday, that of course is essential, that appreciation in these values is essential to your balance sheet upon the principles which it is worked out upon? A.—Yes.

Q.—We will come to an item which I dare say Mr. Sanderson will be more familiar with; reserves released by surrender and lapse, less surrender values allowed, the reserves released being $429,232, and surrender values allowed $306,857.13, or a saving there of $122,374.87—just explain those items?

The answers are given by Mr. Sanderson until a change in indicated.

A.—In what respect?

Q.—Reserves released by surrender and lapse? A.—The reserves which had been held on policies which were surrendered or lapsed during the year.

Q.—And those reserves were let loose, there was no longer any necessity for maintaining them? A.—The liability went off, and the surrender values allowed in connection with the surrender was $306,857.13, or showing a net saving of $122,374.87.

Q.—That strikes me as being a very extraordinary, a very large saving, that is that your surrender values allowed are very disproportionate to the amount of reserve held? A.—There is a considerable amount of reserve which had been held in connection with the lapsed policy, which of course many of them are not entitled to any surrender value, policies lapsing at the end of the first, second or second half, or during the second year, so that if you have a large amount of reserve let loose there for which there is no liability.

Q.—That is where the death occurred earlier in the history of the policy? A.—No sir, where the policy lapses.

Q.—Where the lapse occurs early in the history of the policy? A.—Yes.

Q.—Those reserves are not very large of course individually? A.—No, but of course when you do a large business they mount up to a considerable sum.

Q.—Have you given us in some more comprehensive form the information with regard to those released reserves, those surrender and lapse? A.—I do not think it was called for.

Q.—I do not think it was; in respect of those early lapses or forfeitures whatever they are called, or surrenders, is it not the fact that there was a loss upon the whole in respect of those policies? A.—Do you mean on the first year?

Q.—First or second year? A.—It depends the way you look at it. If you take an individual policy, that goes off the books by lapse, that man leaves a certain amount of money with the company, because what we have to pay for it is the commission and the medical fees, and the current

36th day, June 6th, 1906. Canada Life. (F. Sanderson, Ex'd.)

mortality, there is a net actual money saving there on that basis but—

Q.—We have already seen the excessive first year cost? A.—Yes.

Q.—And I think it is already in evidence either from Mr. Cox or from Mr. Cox with your assistance, that it takes some, I won't say how many, years, it takes years at all events to recover from that initial first cost, and put up the reserve? A.—Yes.

Q.—And you have prepared a table which is illuminating upon that point, and which we will just take up now. You have given us here three policies, whole life, age 35, 20 payment life, age 35, and endowment 20 years, age 35. (Reads statement exhibit 192.) 1st year, Premiums less expenses—7.03—? A.—That is taking in of course the proportion of expense other than the direct expense—

Q.—If you were keeping an account with this policy and its premiums having regard to its expenses and having regard to the necessity of maintaining a reserve, that account would stand in respect of expense minus 7.03? A.—Yes, such expenses as these, but when you look at it just in the actual cost of getting that policy, looking at it in that point of view there would be some money left in the company by the man, but when you assess the general expenses of the company—

Q.—That is the proportion which you set out in this schedule which we have talked about a while ago—? A.—Yes sir.

Q.—Including those portions of first year cost the account would stand in that way? A.—Yes, from one point of view there is a loss and another point of view a gain.

Q.—Shares of claims and surrender values 4.84? A.—There would be no surrender values the first year. At the end of the year there would be a net deficit of 12.46.

Q.—Then besides that you have to put up reserves of 12.82, so that after doing that the policy is minus 25.28 at the end of the first year? A.—Yes.

Q.—At the end of the second year it is minus 16.82; at the end of the third year it has gone down to minus 9.11; at the end of the fourth year minus 1.16, and then in the fifth year the account overtook itself? A.—That is for the whole life policy.

Q.—With respect to the 20 payment life, treating that policy in the same fashion you have minus 29.17 at the end of the first year; minus 17.90 at the end of the second; minus 7.84 at the end of the third year; in the fourth year you have a plus quantity of 2.60? A.—Yes.

Q.—The endowment policy, 20 years, treating that similarly at the end of the first year minus 30.85; at the end of the second year minus 16.83; the end of the third year minus 5.39, and in the fourth year it recovers and shows a plus quantity of 6.72? A.—Taking the life 20 payment policy, showing its own expense, taking into account commissions, medical fee and temporary insurance, and that policy lapsed the man would leave with the company $19.55; that is on the assumption you do not assess against that particular policy its relative share of the other expenses.

Q.—That policy would leave $19.55 in the hands of the company as a sort of contribution towards the other expenses? A.—Yes; in other words the rate of expense to be charged against the other policies would be larger but for this factor.

—Profit and loss statement for year 1905 filed as Exhibit 202.

Q.—We will just finish what we have to say in regard to this statement of 1905; the figures that we have been going through gave total of profits of $965,385.14, and a total of losses of $459,957.61, or a net to the credit of profit and loss of $505,427.53? A.—Yes.

Q.—Can we taking these Minnesota terms approximately compare the previous years in respect of the matters we have been discussing? A.—I think so, they are not made up in the same way for the first year.

Q.—But you could get? A.—Substantially you will get the same view.

Q.—Do those returns show these profits and losses from sales or maturity? A.—Just the net result.

Q.—The same way with increase of market values and decrease of market values? A.—Yes.

Q.—I have to go into that a little; taking again this statement from which we took the profits and losses on the turned-over securities for the year 1905, treating that similarly with respect to previous years I find that in the year 1891 the profit on the turnover of Toronto Street Railway Bonds was $19,750.

—Mr. Watt answers the questions until a change is indicated.

A.—Yes.

Q.—Then there are small profits, $53 altogether, shown in 1892; you were holding your securities pretty fast? A.—Yes.

Q.—In 1893 a small profit of $1,110 in 1894 a small profit of $500 on Water

36th day, June 6th, 1906. Canada Life. (F. Sanderson, Ex'd.)

works' Bonds or Debentures; 1895, 1896, 1897, 1898, 1899 nil, what is the significance of that? A.—No profit, no securities sold in that year. I have been unable to find any record of those in the journal entries of that time.

Q.—That was a period during which the company was holding its securities; then in 1899 you sold some Canada Southern Railway Company stock at a profit, $200,000 of it, at a profit of $14,610? A.—Yes.

Q.—That was the largest profit in the year; there was a small profit on Windsor Hotel Company Bonds; in 1900 you made a small profit on Canada 2½ per cent. stock? A.—Yes.

Q.—There was a profit of $2,350 on Cornwall Water Works Company Bonds; then you sold some Quebec Harbour Bonds, and some other small matters, realizing a profit for the year of $6,007.86.

Q.—Then in 1901 the large sum is C. P. R. Stock, a profit of $16,168.62; Canadian Northern Railway (Ontario Division) $7,300, and the total for the year $29,013,29? A.—Yes.

Q.—I see there an item Canadian Northern Railway, profit on purchase, I want you to explain what you mean by profit on purchase, and why that is included there? A.—That was a subscription we made for Canadian Northern Ontario Division Bonds through Spurling & Company, of London, and I think this $7,300 represented a sort of sub-underwriting profit; the bonds being taken into our account value at the—

Q.—Ground-floor value? A.—No, at the price offered to the public, and this $7,300 deducted from that would represent the ground-floor value.

Q.—That means— A.—That we bought the bonds at $7,300 under the price at which they were offered to the public.

Q.—It cost you that much less? A.—Yes.

Q.—Who throws that off? A.—The Underwriters.

Q.—Do you remember who they were? A.—I think Spurling & Co., of London, England.

Q.—For what reason would they give you an advantage over the general public? A.—Because we were sub-underwriters. You have among the returns a sub-underwriting agreement in connection with that.

Q.—You were underwriting these bonds? A.—Up to I think £30,000 was what we had applied for.

Q.—They were all municipal debentures. You made a profit that year of $11,409.28. In 1903 a large item is Lake Erie and Detroit River Railway, a profit of $42,000 odd, the total profits for that year being $45,737.57. Then in 1904, Canada Atlantic Railway bonds, two sums, $1,000 and $9,475, and then the Canada Atlantic, profit on purchase of $1,300,000 Canada Atlantic Railway Company bonds, $26,000. What about that? A.—We bought those bonds at 98, put them into our books at par. Bought $1,300,000 of them at 98.

Q.—You put them in at par buying them at 98 and you calculated that you had made a profit of $26,000? A.—By reason of our having purchased a block of that size. We subsequently sold them at 102.

Q.—How long did you hold those? A.—We started to sell them out just after we got them.

Q.—Did you buy with the intention of selling? A.—We bought with the intention of selling them. We carried them on loan previous to that, and instead of repayment of the loan we made an offer to Mr. Booth to buy the bonds.

Q.—Then your total profits during that year on investments were $52,172.83? A.—Yes.

Q.—That, of course, is apart altogether from any interest or dividends received in respect of any of these? A.—Oh entirely.

Q.—Then losses in 1891. You lost on Federal Bank stock $6,000. That sounds natural. And in 1893 you lost another $38,000? A.—Yes.

Q.—What were you doing in Federal Bank stock? A.—We were trying to own some of it, sir, but it got away from us. That was the winding up of the Federal Bank.

Q.—You had invested in the stock of that bank while it was a going concern? A.—Yes.

Q.—And you held too long? A.—No, not that. We held it until we got the final dividends from it and that left $9,800 short of the par value.

Q.—Well, that was holding too long I should think. Then you made a loss in '92 in a real estate loan of $396.49. That I suppose was a property which would not realize the amount of the mortgage, interest and costs? A.—That would be it.

Q.—And then in '94 you lost on some Montreal Gas stock? A.—$845.

Q.—Then in 1895 another loan, $674.91? A.—Yes.

36th day, June 6th, 1906. Canada Life. (F. Sanderson, Ex'd.)

Q.—And in '96 there are three loans apparently upon one of which the loss was over $20,000? A.—Yes

Q.—Do you know about that particular loan? A.—I don't know just what that refers to.

Q.—That seems a very large amount? A.—I think that would have relation to the Princess Theatre property. We subsequently recovered $10,000 of that amount.

Q.—Then in '97-8-9 there were no losses. Then a loan again in 1900 about $6,650. Then 1901 real estate at Mitchell, what was that? A.—That was a mortgage foreclosed.

Q.—$1,102. Nothing in 1902. A small loan on real estate in Hamilton in '03. Then you lost on the 2 per cent. inscribed Dominion stock? A.—2½ that should be.

Q.—$6,701.39? A.—On the sale of £20,000.

Q. Then this page is. In addition to profits upon realization of investments, the following net amounts were written up prior to realization? A.—That is before we had sold the stock our book value had increased and had been written up by these several amounts.

Q.—So that really you got that sum plus what has already been shown in the particular instance, in advance of what you bought it for? A.—Yes.

Q.—Those writings being of the nature you were showing to me a while ago, from year to year you advanced the market value? A.—Yes, or adjusted the book value with relation to the market value.

Q.—The Bell Telephone stock you had written up $8,090. Huron and Erie, $938. Consumers' Gas, $4,661.-57. Pere Marquette Railway bonds. $5,000. Now was I quite right in assuming that these had all been sold? A.—Quite right sir.

Q.—And they are all mentioned? A.—In one or other of those years.

Q.—Then the next part of this is, "In addition to loss upon realization of investments, the following net amounts were written off prior to realization." There are some rather heavy writings off there. Let me see how that would come about. You would go over your holdings and you would adjust the book value as you said with reference to the market value? A.—Yes.

Q.—Were those all sold? A.—Those securities have all been sold.

Q.—And then you have lost this total in addition to the loss that has been shown? A.—Yes, that total should come off the gross amount of profits realized.

Q.—Or it should be added to the gross loss? A.—Yes. For instance you notice that we made $16,000 odd on C.P.R. It is written off there and shown to be recovered on the other statement. Likewise the Canada Southern Railway.

Q.—That can be adjusted when we get the information you are about to give us. The St. Catharines-Merritton and Thorold Railway bonds, $7,-575. The Toledo, that is a small sum. United States Government bonds written off $13,750? A.—Yes.

Q.—How was that? A.—Monetary conditions changing in the United States.

Q.—What was your holding there? A.—That loss would cover three different holdings of $100,000 each for State deposits. When we sold them and substituted municipal or other securities, that is the loss we had to take to realize on them. They are practically United States bonds sold, when we bought them on a 1¾ rate, 2 per cent.

Q.—Then the C.P.R. stock, $16,-024? A.—That balances, leaving about $150 net profit.

Q.—Then Northville debentures, $1,125? A.—That is municipal. We subsequently recovered that.

Q.—This had originally been written off? A.—Yes.

Q.—Then the Hereford Railway Company Bond, $570? A.—Yes.

Q.—Canada Southern Railway stock, $15,653? A.—Of which we recovered $14,610.

Q.—Then Windsor Hotel $500? A.—We recovered that.

Q.—Canada Atlantic $687.50. That was a loss I suppose or writen off? A.—Writing off a premium. That was all recovered.

Q.—You made upon that? A.—Yes.

Q.—Then the Canadian Northern First Mortgage bonds $3,304.46, the Grant-Lottridge Company $9,484.07. British Consols $576.67. A.—That is the Grant-Lottridge Brewing Company of Hamilton, on which the company had a real estate loan secured by its bonds and stock. The company did not succeed.

Q.—That is $9,484.07? And the Grant Spring Brewery bonds that is the same enterprise $15,000? A.—Yes, the same. That is the net loss.

Q.—That was an investment which was not very successful? A.—It was a mortgage loan.

36th day, June 6th, 1906. Canada Life. (F Sanderson, Ex'd.)

Q.—Quebec inscribed stock $3,964.20? A.—That was in addition to the $4,000 loss.

Q.—Then after writing off, you got back these amounts or recovered these amounts and those have all been included under the heading of profits realized? A.—Yes, showing that we have recovered $37,997 of that $88,000.

Q.—Then there are sums which have been written off and which have not yet been alluded to. There is real estate acquired by foreclosure $62,276.51? A.—Yes.

Q.—Loans on real estate $203,751.47. Over what period does that range, all the 15 years? A.—Well, that loss has actually been taken in the period of 15 years. I think it would be fair to say that it could be attributed to mortgages made over a period from 25 to 30 years. Probably 25 years. A great many of these mortgages were made in the early '80's.

Q.—That makes a total, Mr. Watt, of $266,027.98 loss on mortgage securities of which you have since recovered, after writing it off, $82,460.80? A.—And may still recover $10,000 or $15,000 more.

Q.—A loss in that respect shown up to the present time of $187,567.18? A.—Yes.

Q.—You say these losses were attributable very largely to mortgages outside of 15 years, I suppose you were writing off before the 15 year period that you have given these answers for as well? A.—No, I have gone back in preparing that statement practically 25 years to get at the amount of loss in that period. I have taken the books back about as far as I could get any correct information.

Q.—Then taking all these transactions and leaving out the real estate and loans thereon, including what has been written up and written off, you have a net profit on the other securities of $133,905.11? A.—A net profit on bonds and stock of $133,905.11.

Q.—Then in respect of your losses on real estate and mortgages you have the balance $183,567.18? A.—Yes.

Q.—So that on the 15 years, in the turning over of your securities, mortgages and all, there has been practically a net loss in investments of $50,000? A.—Practically. I ought to point out there that that statement was prepared with a view to a comparison of the desirability of bonds and stocks as investments, against purely mortgage loans.

Q.—I have no hesitation in saying that the information has been very candid about that condition. (Documents referred to filed as Exhibit 203.) That of course disregards altogether what you have received for dividends and interest on investments? A.—Oh entirely so.

Q.—Of course investment profits are essential to that profit and loss statement indicating the existence of a sufficient fund for reserve. (Mr. Sanderson answers for the remainder of the session.) A.—Yes, sufficient funds for reserve profits.

Q.—What is the purpose of this statement, tell me what it purports to give? A.—This is in reply to one of your questions in connection with your circular of 18th March.

Q.—This is not a categorical answer because you were not issuing that kind of policy? A.—The question I think asked for annual dividends and seeing that we have not got annual dividends, we give you the nearest thing we have to it, which is quinquennial dividends. This is a statement of actual results for the year 1885. A policy coming in in the first part of '85 would receive one year's profits.

Q.—That was to get them in line with the quinquennials? A.—Yes, in '90 there would be a quinquennial dividend, and in '95 and in 1900 and '05. This is whole life.

Q.—You have given us a profit for those five quinquennials at the ages 25, 35, 45 and 55 on all these, whole life, life 10, 15 and 20 payment, endowment, 15, 20 and 25? A.—Yes.

Q.—Now policies issued in the first quarter of 1885, I see that in respect of that first dividend there is no addition at all in respect of the various classes of policies with various ages? A.—No, that was our system at that time. Of course they would be different for different ages.

Q.—You are quite right, they are different for different ages, but the man of 25 gets just the same on every plan of insurance, the man at 35 gets the same on every plan, and so on? A.—Yes, that grows out of our system of uniform reversionary bonus.

Q.—Then when you came to the end of the second period, or the end of the next quinquennium, which would be in April, 1890? A.—The same thing holds.

Q.—Then when you get to the end of the third? A.—It would be the same for life policies but different for endowments.

Q.—Why the distinction there? A.—Well, we rather felt that the endowment policies were not getting as much profits as they were entitled

36th day, June 6th, 1906.

(Canada Life, F. Sanderson, Ex'd.)

to. The other, the old plan was the old English system, and we felt that these endowment policies were perhaps entitled to more profits than they had been receiving in the past.

Q.—In other words you changed your method? A.—As regards endowment policies.

Q.—Then when you got to the end of the fourth? A.—The same principles were—

Q.—Except that you made a change as to endowment? A.—Yes, but the same underlying principle will hold with regard to endowments in 1900 and in 1905.

Q.—The first thing that occurs to one looking at these results is that there is a tremendous falling off in 1900? A.—There would have been more falling off had we passed the dividend altogether, of course.

Q.—Do you say that that was due to the reserve being strengthened that year? A.—It was due to the reserve being strengthened and partly, I think, to the fact that in 1899 there was a re-valuation of all the assets and some sums written off which would, of course, affect the division of profits at that point.

Q.—The figures are—we may disregard the first because it is for a broken period—1890, $25.68 at 25 years of age; 1895, $32.15; 1900, $13.95; 1905, $22.95. It had not recovered in 1906? A.—No, because in that quinquennial period we had completed the transition to the new basis.

Q.—Then that I make an Exhibit, (No. 204). Of course the principal strengthening of reserve took place in 1901 and therefore had nothing to do with the small dividend in the preceding quinquennium. That would be right, would it not? A.—To the extent that the reserves were strengthened in 1901, that would not affect the 1899 division.

Q.—You would hardly say, would you, that such a wholesale reduction as is shown here was due entirely to that $500,000 and the alteration to the actuaries 4 per cent? A.—I think you have not quite got it all. There was $500,000 and the transition from the American table to the actuaries table which involved $352,000, so you have the $500,000, the $352,000, and the re-valuation of the assets, the change in the mortality table.

Q.—The change in the assets eliminating bad assets? A.—Yes, sir, and the $500,000 special reserve.

(At 4.30 p.m. Wednesday, 6th June, adjourned to 10.30 a.m. on Thursday, 7th June.)

THIRTY-SEVENTH DAY.

MORNING SESSION.

Toronto, Thursday, June 7th, 1906.

MR. NESBITT: I was just asking Mr. Shepley, as the Confederation Life inquiry has closed, and that of the Canada Life is drawing to a close, what the view of the Commission was as to allowing any one for the company to make a short summation from the company's point of view, and the result of the evidence, and its bearing upon the inquiry and the report of the Commission. Of course it is to the last degree to be deprecated counsel or others appearing before the Commission and wasting their time, but we thought that perhaps there might be a limitation of two to three hours, just as they limit in the Supreme Court of the United States and in the Appellate Courts of New York, where you are absolutely limited to say two hours to present any case except a special order of the Court is obtained. Perhaps the Commission would think that they might very usefully to themselves gain some assistance from the summation at a later period.

MR. SHEPLEY: I have not thought of it in any detail. I have very grave doubts that upon the whole much would be gained by that; there might be exceptions in many cases, but I do not think there will be any general advantage to be gained by the addresses of Counsel. It never occurred to me, even, that it would be a case in which I should take up the time of the Commission by summing up. I do not know what the Commission may think about it, but I do not think it would be convenient at present to depart from the system which has been hereto followed.

MR. NESBITT: I would not sugest at the present moment there would be any practical use in addressing the Commission. If I were to address the Commission I would like to read over every syllable that has been given in evidence on behalf of these companies and to go over the exhibits, and to give something that would not be mere words or the tinkling of cymbals, but to present in clean, concrete form our

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

point of view of what the result, we would suggest, was upon the evidence both from the company's standpoint and, if it could be of any service, to offer such observations as one of the Commissioners, Mr. Kent, was good enough to request from Senator Cox.

MR. SHEPLEY: Mr. Tilley has just suggested what seems to me might be practical, namely that a written memorandum, or argument, or discussion or presentation of the case might be sent to the Commission, and it would of course receive their attention.

MR. NESBITT: The only difficulty about a written memorandum is that the Commission might like to ask a question and in oral argument that could be answered at once. Oral argument that is thought out is much more effective to the Commission.

MR. HELLMUTH: I should think that Mr. Tilley's suggestion would apply very well to all engaged, that if any counsel connected with the Investigation in any way, either for the Insurance companies or for the Dominion, or for the Ontario policyholders, had any light that he thought could be thrown upon the subjects discussed that he could very well present it in a concrete shape in writing to the Commission. I certainly think the suggestion of Mr. Tilley would save time. The length of time which this Commission will and must necessarily take up is such that it should not perhaps be increased by further oral argument.

MR. LANGMUIR: I suppose a written argument will be fairly condensed?

MR. HELLMUTH: Yes, it would be certainly more condensed if it was in writing than it would likely be in oral argument. It would be in the shape of a factum or case, and just a few points, with short elaborations of the argument, and I suppose the Commission could hardly refuse to receive that, although if they found after reading a little it was not helping them they could throw it away.

JUDGE MACTAVISH: I did not catch, Mr. Nesbitt, what you said to Mr. Tilley's suggestion, as to presenting your argument in written form?

MR. NESBITT: The only observation I have to make on that is, as you know from experience, at least I know from two or three years' experience, that a written argument is open to this difficulty, that it very often happens that one of the Commission desires information or further elucidation, and you can immediately and promptly stop and ask for that, and it probably cuts out a good deal of the argument and presents it in a new view.

JUDGE MACTAVISH: The Commission will consider the representations made by counsel. My own view would be that it would be better in the way of saving time if nothing of that kind was done until all the evidence in reference to all the companies was before the Commission. It does seem to me that the Commission would desire to be apprised in some form or other what the views of the companies are on the points on which a report from them is expected, and I feel personally, without committing the Commission to any particular principle, that I would be very glad to have the views of all those who are engaged before us, on some points at all events before the enquiry closes.

MR. LANGMUIR: It is quite possible we might agree on some points.

JUDGE MACTAVISH: It is not a case in which there has been so far any conflict of evidence, or any matter of that kind in which the Commission will have to weigh one statement against another.

MR. SHEPLEY: I do not think it should be lost sight of that so far as the companies are concerned they have been advisedly, so far as we have acted, represented in the witness box by the men who could best, in the witness box, express the insurance view; that we have done because we thought that would be much better in the interests of the enquiry than going to people who were not in a position to declare themselves upon questions of policy. However, Your Honors will consider the matter further.

JUDGE MACTAVISH: We will consider the matter from every point of view.

MR. SHEPLEY: No change will be made in the proceedings at present?

JUDGE MACTAVISH: No.

—Evidence of Mr. Sanderson continued:

MR. SHEPLEY: Q.—This is a statement which I wish to put in of interest and rents from 1891 down to 1905 separated, and then put together? A.—Yes.

Q.—Under interest you have included interest earned upon investments, that is what that is intended for? A.—I believe so.

Q.—And the rents? A.—The rents on the company's properties.

37th day, June 7th, 1906.

—Mr. Watt answers the questions until a change is indicated.

A.—This memoradum of rents is the rental derived from not only the head office and branch office buildings of the company, but other real estate in real estate account.

Q.—Do rents there include rents received in respect of mortgage properties? A.—We call them real estate; when a mortgage is foreclosed it goes into our real estate account, and this would include the rent received, similar to interest on a mortgage.

Q.—The interest on the mortgage while the mortgage was current would fall under the other column? A.—Yes.

Q.—And then after you have forecosed so that the property becomes the property of the company it goes into the rent column? A.—Yes.

Q.—What is the meaning of these two years, 1899 and 1900 where nil is put under rents? A.—The gross amount from rents in those years was applied to reduce the principal of the account.

Q.—That is, you made use of it, not as income, but as reduction in capital? A.—Yes.

Q.—Reducing the capital so represented? A.—Yes. It would be dealt with in this way, if we had credited interest account we would have just written off a like amount from the real estate account.

—Statement of interest and rents from 1891 to 1905 filed as Exhibit 205.

Q.—Then you have given us a useful exhibit here under the question with regard to profits, and that I desire to detach and put in just as it is, and then I want to discuss it with you a little. (Statement filed as Exhibit 206.) These are the answers to questions 6, 7, and 8 under the heading "Profits." The questions are:

"(6) Furnish statement showing proportion of profits distributed in dividends to shareholders, including all bonuses or other moneys paid to shareholders.

(7) Furnish statement showing the proportion of profits allocated to policyholders maintaining the distinction between the different classes of insurance.

(8) Produce and explain in detail the calculation, whether actuarial or otherwise, upon which the allocation of such profits was made, maintaining the same distinction." In your exhibit you have first dealt with questions 6 and 7? A.—Yes.

(Canada Life, F. Sanderson, Ex'd.)

Q.—The exhibit proceeds: "In arriving at the profits, etc." (Reads down to the words "between the quinquennial periods")—with profits you mean for the broken quinquennial period? A.—It would mean on policies where persons died during a quinquennial period, or where a policy matured between a quinquennial period, we call them interim profits.

Q.—They are profits for the broken part of the quinquennium? A.—Yes.

Q.—In the early history of the company you had annual distribution? A. We had annual dividends, as I said yesterday, up to 1865. I do not think it is the practice of all companies to give interim profits; it has not been in some cases. I have mentioned there that that amount is retained for that period we speak of, but since handing that in I have had the opportunity of getting the figures for that.

Q.—We will add that to the exhibit? A.—It is $177,000 for the period under review.

Q.—That is, you have added to the profits which were shown in the main exhibit the interim profits, being profits handed over upon death occurring within a quinquennium? A.—Yes.

Q.—That amounts to $177,058.16? A.—Yes.

Q.—Your exhibit goes on, "To arrange their quinquennial periods," etc. (Reads to the words "the result of each quinquennial allotment")—1894, $2,168,686 to policyholders, and $138,246.13 to shareholders." That does not of course include the interest upon capital at the average rate? A.—No, sir.

Q.—That is in addition to that? A. —Yes.

Q.—That includes then all the profits, or does it include all the profits which have been earned in respect of non-participating policies? A.—Yes, according to the amended charter of the company the profits on non-participating policies go to the with-profit policyholders.

Q.—You separate the profits that are earned into two classes, the profits earned on non-participating business, and the profits earned on participating business? A.—No sir, that would be done if we had decided to give the profits of the non-participating policyholders to shareholders, that would be necessary, but in so far as all the profits arising out of non-participating policies go to with-profit policyholders they are naturally all kept in the one fund.

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

Q.—That is not as you put it at first, I think; what you say is you do not make any distinction, that you take all the profits arising in respect of both classes of policies, and you divide those in the proportion of 90 and 10? A.—Yes, they are all kept in one fund during the period. The total profit arising at the end of the period is divided in that ratio.

Q.—That is the participating policyholder upon the system which you follow get 90 per cent of all profits, including the profits upon non-participating business? A.—That is correct.

Q.—In 1899 the figures were $943,584 to policyholders, and $110,996 to shareholders? A.—Yes.

Q.—In 1904 $1,352,252 to policyholders and $106,657 to shareholders. Then you put under that the strengthening of the reserves. Then you come to answer to question 8. I will add this supplementary exhibit? A.—This supplementary statement makes an improved showing for the policyholders.

Q.—Let us analyze the profits for a moment. Your quinquennial division has covered all gains less interest on capital at the average rate, and less also the expenses? A.—Yes.

Q.—Just state how you made your enquiry; did you assume a figure first and work to that, or did you compute it? A.—It was ascertained in this way, to ascertain what bonus addition can be declared at each quinquennial period the with-profit is listed so as to exhibit the sums assured in each quinquennial age, and then the calculation made as to how much money will be required to declare a bonus addition.

Q.—That is a bonus addition of what? A.—$10 on a thousand.

Q.—Why is that method adopted? A.—That is the regular common system of British Companies, commonly known as the uniform reversionary system.

Q.—That is you found how much it would take to make a bonus addition of $1 a thousand? A.—$10 a thousand; the business is all listed, and we can tell how much by multiplying the sum assured at each age by the single premium, you can tell how much it takes to purchase a bonus addition of $10 a thousand, and you get all this done for each age, and you total them up, and then by raising up and down you can compare that with your surplus.

Q.—In other words you find a unit first? A.—Yes.

Q.—And apply that unit to the sum to be divided? A.—Yes. It is a simple process, and it is the process very largely in force in Great Britain. It has been used by the company for a great many years.

Q.—That was effective in securing a complete distribution I should imagine? A.—Yes, very satisfactory and simple.

Q.—It prevents the with-holding of any profits which ought to be divided? A.—Yes. As a matter of fact I think, of course the company has actually divided all the funds at each quinquennium—ordinarily according to common practice that would not be done; it is customary for companies to keep back part of the surplus, but this company the surplus was laid out every quinquennium, and that was one of the difficulties we had to overcome.

Q.—And this method of calculation was calculated to bring that about? A.—It enables it to be brought about.

Q.—The only thing you can do, adopting this method is to deplete your surplus by writing up your reserves, if you do not do that, adopting this method must be followed by complete distribution? A.—Yes; ordinarily I think a British Company would have kept part of that surplus, if they saw the interest was falling, with a view of strengthening the reserves later on. That was not done by us,

Q.—There was a question I should have asked you yesterday when upon the subject of strengthening the reserves: do you know of any case where a company in high standing strengthened its reserves spreading the process over a long series of years at a low rate of interest? A.—It has been done in various ways, and it is just as Mr. Manley says in his report, you have to take the company you are dealing with, take its surroundings, its history, and the existing conditions; you cannot deal with any two companies in the same way. Some spread it over a considerable period of years, and others do it rapidly; for instance, the Australian Mutual Provident, I know early in 1893 that company was then upon a 4 per cent. basis, and in three years it passed at once to a 3½ per cent. basis.

Q.—My information may be at fault; my information is that upon the advice of two actuaries of very high standing—Dr. Sprague and Mr. Hardy—perhaps you know them? A.—Yes.

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

Q.—That upon the advice of those two consulting actuaries they wrote up the difference very gradually, so that they hardly affected their profits at all? A.—That was the advice given by the actuaries, but the actual practice of the company was to bring it to 3½ per cent. basis within a period of three years.

Q.—Do you show me chapter and verse for that——

MR. LANGMUIR: Is that a large company? A.—Yes, one of the largest and most successful and best managed companies in the world. This is their prospectus: "Up to and including the year 1893 the Society assumed a rate of 4 per cent. in the valuation of the Policy liabilities. In that year it was decided to strengthen the reserve for these liabilities by a gradual reduction in the rate of interest employed until the rate of 3½ per cent. should be reached. The transition process was completed in 1897, and the rate of 3½ per cent. is now employed in the valuation of the policy liabilities except in the case of a few non-participating policies."

Q.—What is their period, 5 years, or annual? A.—I think at the present time they are annual; they had been prior to this either of three years or of five years. This company now is holding 3 per cent. reserve basis for policies I think since 1902, and 3½ per cent. for those policies prior to that, and this company did not distribute all its surplus from time to time, and this enabled it to pass more easily to this new basis.

Q.—Let me identify the book from which you have read; this is the prospectus of the Australian Mutual Provident, which seems to have been issued —there is no date? A.—It was sent to me last year; it must be quite recent.

Q.—The fact seems to have been, according to what you say, the distribution was very little interfered with in the case of the Australian Mutual Provident? A.—For the reasons that they had not distributed all their profits.

Q.—Because they had been withholding some of their profits they were able to do that without distributing— A.—I think it is only fair to our company to have that clearly understood, that we were under very great difficulty in having to make this change by reason of the fact——

Q.—I do not want to have to go over that again, but I suggest to you that you would have been under less difficulty if you had adopted the gradual method? A.—As I said yesterday, perhaps we did adopt a fairly gradual method; about that there would be differences of opinion.

Q.—What is your view as to the system of annual distribution of profits as compared with the system which your company has adopted? A.—I am quite free to give my view upon that; as I said yesterday the practice of our company was to declare dividends annually from 1847 to 1896. After carefully considering the matter Mr. Ramsay, who had shortly prior to that come out from Scotland, considered it wise to change from annual to quinquennial, and so far as my observation goes that was a step in the right direction. The practice of British companies generally is quinquennial dividend system; it works splendidly, and as between annual dividends and quinquennial dividends, I would say by all means quinquennial dividends.

Q.—Why, does not the other work splendidly, too? A.—For policyholders as well as for the company.

Q.—Why do you say that? A.—For one thing it gets rid of rapid changes in financial condition, ups and downs in profit. You may have in one year under an annual dividend system a great slump in the market, that produces an undesirable change where there is annual dividends, whereas with a period of 5 years you get a better average to work over.

Q.—That is one reason? A.—In the second place it makes of course a great deal less work. With an annual dividend system there is a great deal work and calculation is required, which is obviated by this other system, and I think the trend of practice in Great Britain has all been towards the quinquennial system, where any change has been made it has been from the annual dividend or from the triennial dividend.

Q.—That is you say it is an indication that it has been thought desirable by those who manage insurance companies? A.—I think it is the experience both of policyholders and the company. I ought to say that is the British system as against the annual dividend system of the States, and there is no chance of British companies departing from that.

Q.—With regard to its involving labor you have already in your company the labor involved in arriving at the scale of profits in broken periods, in respect of policies which mature, be-

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

come claims? A.—No sir, only once in five years we do it.

Q.—But you have told us you distribute profits for the broken periods where the policy becomes a claim? A.—That is done in this way: Immediately after a quinquennial division of profits the directors declare what will be the rate of interim profits for the next five years. That has been the uniform practice of the company, and is uniform among British companies generally. The directors will say for the next five years we will declare a certain rate of bonus, one per cent. of $1\frac{1}{4}$ per cent. for all policies maturing in that period. Generally it is substantially less than the rate which has been declared, and that will hold to the end of the quinquennium.

Q.—You do not arrive at the profits for the broken period by any computation except by just applying an arbitrary rate of profit declared at the beginning of the quinquennium? A.—Exactly.

Q.—At the end of the quinquennium you make the computation however for those who have survived that period? A.—Yes.

Q.—Can you say how that computation has usually compared with the rate declared? A.—It is almost a universal practice to make sure the rate declared as interim profit is less than what will be realized; it is usually put on the safe side.

Q.—And this sum of money which appears in this account as having been allocated by way of interim profits is less than the actual profits? A.—It would be less than we would have obtained had they kept on until the—

Q.—At a less rate would be the best way of putting that? A.—Yes,

Q.—Than you have described in your answer— A.—Pardon me, I ought to add right there that our company has declared the interim profit this time the same as we declared at the last quinquennial division.

Q.—That is you have declared that those policies becoming claims during this current quinquennium are to have at the same rate? A.—We did not cut it down any.

Q.—That method of arriving at your bonus addition that you have described to me has been followed since when? A.—Commenced in 1870, at the first quinquennial dividends, and been continued in that way since.

Q.—In your answer there is an interesting statement made which I would like you to elaborate a little; you say: "The above described method, etc., has been followed since 1870," etc. (reads down to the words "had abandoned it")—do you corroborate that as a matter of evidence? A.—I have taken that from the transactions of the International Congress of Actuaries.

Q.—Do you verify the statement that Mr. Ryan is said to have made? A.—I have practically; I am satisfied that is correct.

Q.—That is a correct statement? A. I believe it is.

Q.—Do you think that the policy of the insurance companies in that respect has at all been based upon the circumstances that it retains in the hands of the management these profits for a longer period? A.—No, I do not think so; I think it is in that form because it gives general satisfaction. It is simple, easily understood, avoids disturbances, and is satisfactory to the policyholders.

Q.—It does in fact retain the funds longer than the annual distribution would? A.—And if a man lives to the end of the period he would consequently get slightly more by reason of that.

Q.—It tends towards concentrating large sums of money in the management of the companies? A.—Of course for a five year period it would not be a very excessive amount and it gives stability and avoids perhaps a company holding as much by way of contingent account as otherwise would be necessary. You will find companies with annual dividends find it necessary to hold large contingent accounts, which sums of money for instance, take a very excellent company in Philadelphia, the Provident Life & Trust, an annual dividend company, it has eight millions of dollars of undivided surplus.

Q.—Have you in respect of some of your forms of insurance departed from that and adopted a different method recently? A.—Yes, in respect of the tontine.

Q.—Will you describe what you have done in regard to that, when the change was made? A.—Of course the tontine business is comparatively recent, only commencing in 1888 and 1889.

Q.—And the change you have just spoken of was made about when? A.—1904, it was practically the first time we had to deal with any maturing tontine.

37th day, June 7th, 1906.

(Canada Life, F. Sanderson, Ex'd.)

Q.—Describe what you have done in regard to that form of insurance? A.—May I read from this exhibit?

Q.—Yes? A.—(Reads from exhibit 206) "At 31st December, 1901, the tontine period of a number of policies," etc. (Reads down to the words "plus the profits").

Q.—That of course is a departure from the reversionary bonus distribution? A.—Yes.

Q.—And is one of the results of it, that there is not a complete distribution of the profits? A.—I do not quite grasp your question.

Q.—One of the result of departure from the reversionary bonus scheme in the way in which you do in regard to tontine business is one of the results that you do not at any given time distribute the actual profits? A.—Yes, that is one of the results.

Q.—Perhaps to put that in technical language, you have changed from a distribution to an apportionment system? A.—Yes.

Q.—Was that change brought about as a result— A.—I might explain a little historical point there. We adopted the tontine system, as I said, about 1888 or 1889. Prior to that the American companies had been pushing that form of policy in Canada very vigorously. Our company—I was not with the company then—opposed that system of insurance for a number of years, they would not grant it to the policyholders. The agents kept complaining year after year that they were losing business, prospective policyholders would say, "I would like to insure in the Canada Life, but I want the kind of policy that the Mutual Life, the New York Life, the Equitable Life is giving." We lost thousands upon thousands of dollars of business simply because the company would not give that kind of policy, until finally the pressure from the agents and the public was so great that the company had to concede the point and issue the policy.

Q.—Then I would understand from that it is a form of insurance that the Canada Life did not approve of upon principle? A.—At that time I think the management was quite satisfied with the quinquennial system.

Q.—And won't you go a little further and say this form of insurance is not a form of insurance of which those in charge of the early policy of the Canada Life approve? A.—I would not go that far, I do not think I would feel like going that far.

Q.—Why had the Canada Life resisted for so many years the issuing of that kind of policy if it was not that it was disapproved of? A.—It was an American invention, was not very much known at the time, and we had a Scotch Manager, and naturally he opposed the American innovation. There was very little experience with it up to that time; it was a new thing and he was quite satisfied with the quinquennial system.

Q.—Do you know of any company other than the Canada Life which has relaxed its adherence to the reversionary bonus system having once adopted it? A.—I think a number of companies have adopted the tontine while they had the quinquennial; for instance the Confederation Life had the quinquennial system, the Sun Life had the quinquenial system for years.

Q.—Have any of the British Companies adopted it? A.—Yes.

Q.—I mean in which they have given their adherence to the reversionary bonus system? A.—Yes. I hand you, sir, the agents manual of the London & Lancashire Life Insurance Company deferred bonus system. I think the Standard Life has been issuing that policy for years here in Canada.

Q.—Is substantially all your business now written upon this principle? A.—That would be correct.

Q.—The result of that is that you have your business separated into five year classes running from the date of the insurance? A.—For the quinquennial policies, but these tontine policies are all kept by themselves.

Q.—But the tontine policies have this adjustment of profit at the end of five year periods from the date of issue? A.—No sir.

Q.—How is that? A.—The tontine fund is kept entirely distinct by itself, and we simply have—

Q.—How often do you adjust profits in respect of the tontine? A.—If we had tontine policies coming due every year we would do that, but according to the system of tontine originally introduced they were really made to fall in only once in five years so that—

Q.—Is that what you are following now? A.—No sir, at the present time they will fall in every year, but there won't be any falling in till 31st December, 1909.

Q.—Is the method which you are now adopting consistent with keeping an individual account with each policy? A.—Practically, yes, it amounts to that.

37th day, June 7th, 1906.

(Canada Life, F. Sanderson, Ex'd.)

Q.—It would be possible of course, as we have heard from other actuaries to keep an account with each policy? A.—It would be.

Q.—And that would be a method which would obviate a good many of the matters of which complaint is made? A.—That together with possibly the elimination of estimates. I would like, if you thought well, to put in an explanation of the deferred dividend system as prepared by the President of the Actuarial Society of America. It is simple, easily understood, and goes into the merits of the tontine policy, and removes some of the objections which have been urged against it.

Q.—That is by Mr. Weeks? A.—Yes.

Q.—Of course that is presenting the case from the strongest standpoint from which it can be presented in its favor? A.—I think that would be correct to say that.

Pamphlet containing explanation of deferred dividend system by Mr. Weeks, filed as Exhibit 207.

Q.—We have first here certain comparisons of the actual results and the estimated results? A.—Yes sir.

Q.—That is prepared by you, I think? A.—Prepared in our office.

Q.—And these results are by comparison with other figures which we have deemed very favorable? A.—I think they are. I think the total cash value which we offer a man compares very favorably with the original estimate. I have taken a total of the whole thing, and it turns out that the total for policies maturing last year was 92 per cent. of the original estimate.

Q.—I would like to put in one or two of these by way of illustration, but I will put the whole document in; I won't read them all. I see that in the case of a whole life policy under the 15 year tontine plan at the age 26 the cash profits estimated were $204.-85, the cash profits $85.20, the cash over sum assured, that is the surrender value? A.—Yes.

Q.—Estimated $85, actual $150, a total therefor of estimated $289.85; total actual of $235.20, or a percentage at 81 per cent. Then I see you get as high as 108 per cent. in the ten payment life at the age 25. 99 per cent. in life 20 payments at the age 31, and as high as 94 at the age 25 in 15 year endowment. You get as high in the ten payment life at age 25 as 114, and you get as low as 83 in a whole life at age 33.

Q.—You have given here a summary which will be useful, showing that your results are 91.7 per cent. of your estimates. (The statement referred to filed as Exhibit 298.) Now you have made certain changes in the estimates from time to time. A.—Yes.

Q.—You have had 4 manuals in the period that we are considering. A.—Yes.

Q.—A manual dated 1890, one in 1895 and one in 1898, and the other, the manual at present in use, when was that issued? A.—I think in 1901. The general trend, of course, is to reduce the estimate.

Q.—I see it is in some cases and in some cases it is to increase it. A.—The only increase would be in the case of endowments.

Q.—There is 15 Payment Life. A.—That is the total cash. I think if you take the estimated cash profits.

Q.—Yes, that is so. But the total estimated cash surrender value and cash profits is increased in some of these cases. A.—I think you will find that our estimates are extremely conservative in comparison with companies generally.

Q.—That may be so. How is it with respect to the results which you have achieved? Are you not still estimated, speaking generally, in advance of these results? A.—No sir, when you take into account the difference in premiums as we have done, the present estimates would appear to be quite conservative.

Q.—Now do you say that the difference in premium has not compensating disadvantages which off-set that? A.—As a matter of fact, when I said I spoke conservatively, I used 90 per cent. of the premiums.

Q.—When you increase the premium you have to correspondingly increase the reserve? A.—Yes, and that would, of course, bring with it increased profit.

Q.—Your expenses are more now than they used to be? A.—Yes, that is one reason why I used the 90 per cent. in place of the whole difference.

Q.—And the rate of interest is lower? A.—The rate of interest is higher than it was towards the end of that period. The rate of interest, as we saw, was very low during the 90's, especially in the late 90's, and now the curve has gone upward. This diagram will show graphically the trend of interest in our company; back from 1882 it has been running

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

right down, '99 is the lowest point; since that the trend has been upwards, so that the reserve basis, the change was made at this point with all these conditions in view, at the lowest point there was in the whole period.

Q.—I would like the Board to see that. I do not suppose you want it put in. Now here are some figures which our actuary has made and I am going to put them in. I want you to see them and, of course, they are subject to verification by you, if you desire it, but I daresay you will accede to the probable accuracy of them. A.—I think I ought to say that this would be a very unfair way of stating the case. (Statement referred to filed as Exhibit 209.)

Q.—Is it partial? A.—I think so, sir.

Q.—In what respect? A.—He simply deals with the original estimated profits, with the actual profit realized, without taking into account the strengthening of the reserves and the benefit given to the policy at maturity by reason of that strengthening.

Q.—I do not suppose the policy-holder will reason in that fashion. He has regard to the net result to him. A.—We receive certain money from him; at the end of the period he can call for his equity. He may get it back in one pocket or the other, it does not make any difference as long as he gets the whole thing. I would dissent from this.

Q.—Because it leaves out the strengthening of the reserves? A.—Yes, I think it is very unfair. The statement I had a minute ago is, I think, the fair way of putting it. I gave you all the facts.

Q.—Now you have made a difference with regard to profits to policies after they became paid up? A.—Yes.

Q.—Describe that, what did you originally do and what was the change made? A.—We are speaking of quinquenial policies. The practice up to 1899 had been to give the same reversionary bonus to all policies whether premium paying or paid up policies. Before describing what we did at '99 I would first like to fix the responsibility and assign the motive. for that and I think the President, as a matter of fact, was at first opposed to it, so I take the full responsibility of that change. Let me explain now that prior to this division in '99 the assistant actuary at that time, Mr. Papps, now with the Manufacturers Life, with myself had been looking into this question a good deal, and on looking into the premiums paid by the respective policies, especially the 10, 15 and 20 Payment Life, we found they were quite deficient as compared with the Whole Life policies. Then the change of reserve basis meant this, that it took a very large sum of money to put up the reserve on the Paid up policies as compared with a Whole Life policy; that is to say, the Paid up policy had a bigger debt to pay than the Whole Life policy, and it seemed unfair to the Whole Life policy to give as much profit to the Paid up policy as to the Whole Life one. It would have been simple and easy to have given them all the same. If we had done so nobody would have known any difference. The Whole Life men would had part of the profits which they really earned given to the Paid up men who did no earn it, and it was simply a question of principle v. the other. I felt it was the right thing to do; common, ordinary justice, and I did it on grounds of pure justice and equity.

Q.—How did you adjust between the two classes when you made the alteration? A.—Policies which had been paid up for a period of 10 years get a slightly less rate of bonus that premium paying policies. To the premium paying policies in '99 we gave $7.50 per thousand, a ¾ per cent. bonus. To paid up policies we gave a ½ per cent. less, or $5 per thousand, a difference of $2.50 per thousand.

Q.—Was that just an arbitrary division? A.—Partly arbitrary and partly from a little investigation. To give expression to the fact that the paid up policy had not earned the same rate of profit as the whole life. I ought also to mention in that connection another reason, that no part of the loading on the 10 payment policies, like 10 Payment Life, had been carried forward to carry on these policies. The practice in British companies is to reserve part of the loading on limited payment policies, so as to carry on the profit at the same rate. That had not been done; that money had been distributed.

Q.—Is that a system which could have been adopted? A.—It is a pity it was not done.

Q.—Could you have adopted it when you made the change? A. Oh no, because the money had been distributed.

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

Q.—Now, dealing generally with this question of payments and results, having regard to the fact that you have so nearly reached your estimates in your results, would it not be possible by economy to live up to your estimates in future? A.—Well, I would like to see estimates eliminated altogether.

Q.—Your idea is that there should not be any estimates permitted? A. —Deal with actual things, actual results.

Q.—Would you be in favor of a law preventing estimates being put out? A.—I would not object to it. It would eliminate one of the objectionable features in connection with the tontine system.

Q.—Now let me take up with you the question of lapsed policies. Your company originally insured with rather stringent provisions as to forfeiture. I had better just illustrate that by reference to the policies themselves. If you will look at the provision in this policy. What is the provision there, substantially? A.—"30 days grace are allowed for payment of premiums, but should the payment due upon a policy or any instalment thereof remain unpaid beyond that time it may be revived within six months" upon certain conditions. We have liberalized that a good deal.

Q.—In this form, Number 26, you have introduced the automatic nonforfeiture division? A.—Yes sir.

Q.—That keeps the policy on foot automatically? A.—Yes, sir. A man can see here what his cash surrender value is and how long it will keep the policy in force.

Q.—I will put in those two forms of policy, the only two I am going to file. (Exhibit 210.) With respect to the old form of policy, do you still adhere to the forfeiture provisions? A.—We did not extend this new nonforfeiture clause to the old policies, but the practice of the company is to deal in a generous way with the old policies. We do not ask them to live up to any hard and fast rules. We think generosity is a good business . It may depend on who carried out the rules. What I mean to say is, if a man feels that he has suffered an injustice and he appeals to the directors, if there is any reason in his case at all, it is generally listened to.

Q.—This probably is a matter that Mr. Watt could tell us about.

MR. WATT: No sir, I do not know anything about that.

Q.—Then I will go through it. This is a statement of contributions for charitable, political or promoting purposes? A.—That is not in my line either, Mr. Shepley.

Q.—Then I will just have it on the record.

MR. WATT: If you will leave out the word "political." There is nothing of that kind.

Q.—The Springhill Mine Disaster, Nova Scotia, paid through the Halifax Agency $100. That was in 1891.

In 1897, the Queen Victoria Diamond Jubilee, Montreal. Montreal Agency that was paid through, $200.

In the same year, '97, the Indian Famine Fund, paid through the Bank of Hamilton, $1,000.

In 1900 the Canadian Contingents Families Fund, paid through Colonel Maclaren, $250.

The Red Cross Society, paid through Miss Wilkie, $250.

The Ottawa Fire, paid through C. W. Taylor, $2,500, in 1901.

MR. NESBITT: That should be the Ottawa Fire Sufferers, it might be quite different.

MR. SHEPLEY: Yes, the Ottawa Fire Sufferers.

In 1901, Toronto General Hospital, through the Secretary of the Toronto General Hospital, $10.

And in the same year the Queen Victoria Statue, paid through Mrs. Gibson, $250.

In 1902, the Toronto Firemen's Relief Fund, paid through the Secretary of the Board of Trade $500.

A.—Returning to the last Exhibit, in conection with that last policy, I would like to put in an Exhibit to you showing how we deal now with these people. We have established two or three years ago, a Lapsed Department, in which one man gives his entire time to looking after these people whose policies have lapsed. We make every effort to keep in touch with them and to get them to renew. This is an explanatoin of that.

MR. NESBITT: This document may be of interest to the Commission. I drew my learned friend's attention last night to some discussion about the policyholders turning the company into a mutual company. An interesting document has turned up which might be filed.

MR. SHEPLEY: I said to my learned friend that I thought it entirely proper that that should be put in, although we both think that insurance conditions then were probably dif-

37th day, June 7th, 1906.

(Canada Life, F. Sanderson, Ex'd.)

ferent from what they are now, but it is historically interesting.

MR. NESBITT: It may be of interest to know that the first Charter applied for was for a mutual company. That went through the Lower House but was refused by the Upper House in 1847. Then it is brought before a meeting by the Hon. Mr. Ferguson and after a good deal of discussion, which is set out here, a provisional committee was appointed to see Sir Allan McNab, who was then Prime Minister, and the result of that was that he declined to consider the question of a mutual company, saying that no application would be considered that had not the guarantee of some capital behind it to protect the policyholder. That led them to the Deed of Settlement of £50,000 which you have had before you, in the end of 1847 and '49. We filed that then. It is open to this observation, that it is a little difficult for a shareholder—if he were perpetual, like the company is—to know where he is at, so to speak, one Parliament saying, we will not allow you, and then when it is on a solid basis another saying, we wish to forfeit your capital and take from you the money that you were compelled to put up, but I suppose that is King Demos always.

MR. SHEPLEY: I propose now to cease the examination of the witness, with the intention, however, of taking up some specific cases. The actuary only arrived this morning; he has been away and I have not had an opportunity of consulting with him upon them.

MR. LANGMUIR: Before the counsel for Ontario begins his examination, Mr. Sanderson, I would like to ask you one or two questions. You have said that you approve of the quinquennial distributions instead of the annual as suggested by Mr. Ramsay in '69? A.—Yes.

Q.—You say your chief reasons for that are that first it saves a great deal of trouble? A.—That is one reason.

Q.—Secondly, I believe you said that the average results in the 5 years were better than in one year? A.—Yes.

Q.—That is in determining the amount? A.—Yes. And thirdly, it avoids disturbances.

Q.—What is your opinion of the labour and trouble of investing the profits during the 5 years? Is that not as great as making out the annual division? A.—I should say not.

Q.—There is a great deal of labour and trouble in keeping the profits invested in the 5 years? A.—In the case of say, a million dollars I do not think our board of directors would take very many hours in investing that, as compared with the large amount of work entailed on the whole staff in investigating the profits annually.

Q.—There is a good deal of trouble in keeping the profits invested, ascertaining what they are, to whom they belong and so on? A.—Yes, of course large sums are more easily invested than small.

Q.—No doubt. Now, there is the risk of investment during these five years, is there not? A.—Certainly, but there is compensation, I think in the fact that the company has this surplus in hand during the 5 years. Free surplus. Now, an annual dividend company, like the Australian Mutual Provident, a mutual company, has got an investment reserve fund of over $1,000,000. That is monies really kept out of the policyholders to protect the assets. It is practically a capital stock.

Q.—Assume for the moment that the annual division is not mathematically exact, what would be your objection to giving an annual interim division and then at the end of 5 years, after having ascertained exactly what it should be pay the balance? A.—That would entail more work than the annual dividend system. It would be practically all the work of the annual dividend system.

Q.—No, not if it is merely an estimate. Say that you instead of distributing one per cent., distribute 3¼? A.—I think legislation of that kind would practically drive British companies out of Canada and we have in this country practically the British system for policies other than tontine. I think it would be a most unfortunate thing to have legislation which would interfere with their old, recognized and approved system of distribution of profits. The annual dividend is an American system and the quinquennial is a British system.

Q.—You admit that the profits belong to the policyholders? A.—Yes.

Q.—Should they not get them as soon as possible within reason? A.—Within reason, and I think a 5 year dividend period is a reasonably short period and experience over very many years proves that it gives satisfaction.

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

Q.—Do you think the profits of investment during that 5 years are greater than the risk? A.—I do not think that is a factor that need cause any alarm at all, of any consequence.

MR. KENT: Mr. Sanderson, we have seen several instances in the course of this investigation which show that when any important actuarial question comes up, it is referred to somebody either in New York or London. Is it your opinion that it is absolutely necessary to do that? Is there not as much actuarial science in the Dominion of Canada as is necessary to conduct its business? Is it not more for the purpose of satisfying the shareholders and policyholders than for any real necessity that exists? A.—Well, there would be a necessity existing at times. I think it was extremely wise of our company in 1899 to get the opinion of such a widely experienced actuary as Mr. Manley, the President of the Actuaries of England. He was the Manager and Actuary of the old Equitable Life; a man 60 years of age, an eminent actuary, of the highest standard, and it gave our company I think a broader view to work from. Then we had the opinion of Mr. Fackler, of New York, from the American point of view. It was satisfactory to all concerned. With regard to the point you have raised, we have not in Canada any consulting actuaries. The actuaries we have in Canada are all connected with some company, and the result is that companies requiring advice do not feel quite as free to go to an actuary who is already engaged with some other company. I think in Canada we have no reason to be ashamed of our actuarial standing.

Q.—During recent years has it been necessary to seek the advice of a foreign actuary, particularly when the advice of that foreign actuary is not followed by the company? It is fair to say that your own advice was not followed either? A.—The difficulty is that there were no consulting actuaries in Canada. There does not exist in Canada to-day a qualified person with the title of consulting actuary, so far as I know.

Q.—Has your own opinion been changed by the opinion of these actuaries that were consulted at that time? A.—In reference to the change of reserve basis?

Q.—Yes. A.—My own opinion is that the change as made was wise and that the judgment of history upon it will prove it. It may be misunderstood in the meantime, but I believe it was a wise thing to do and it will benefit in the long run the great mass of the policyholders.

Q.—You considered it prudent to get several opinions, even if it was only to see what the majority of the opinion was? A.—Yes. I have no doubt at all that if a British actuary had been placed in charge of the management of the Canada Life Assurance Company in '99, he would have at once recommended the passing of the bonus. I am satisfied of that. We took a middle course.

Q.—If your company is going to be the leading company of the world, as the President said was his ambition, it naturally follows that the actuary must be one of the leading actuaries of the world, it must follow the regular order of progress? A.—I think it would be a good thing for all the companies if they had actuaries in their offices. I believe if there is one thing more than another that we need in Canada, it is sound actuaries of good judgment and character in the various offices.

MR. McCARTHY: Of course the Commissioners understand that the Canada Life think they have got one of the leading actuaries in their office.

MR. KENT: Of course I cannot ask the witness his opinion of himself, but if I were the actuary of the Canada Life I would certainly feel humiliated if I were compelled to ask an opinion from any other actuary. I have read the remarks of foreign insurance papers about the high standing of some Canadian actuaries that were not named. I do not know who they were. I would like to find out but that is possibly foreign to this inquiry. Any way if there is not as much actuarial science in Canada as any other country there ought to be? A.—That is worth explaining, Mr. Kent. Here in Canada we are a young country, actuarial science is in its infancy. England is the home of life insurance it is the home of actuaries, it is the school of actuaries. There has been no opportunity in this country to develop them. Ours are practically all young men. Consulting actuaries do not exist, and there is no man not connected with some company to whom you could refer. I think it was a wise thing—I made the suggestion myself—and I have always thought it was a wise thing to do, and they got not only their advice but also the advice of prominent fin-

ancial men throughout the country.

Q.—You see no reason to abandon your own ideas in consequence of any opinion expressed by any foreign actuary, I suppose? A.—I do not.

Q.—I wanted to elicit that. I think that Canada ought to have a good lead amongst the actuaries when it has taken the lead in other matters. I have seen nothing in the course of the inquiry which has led me to believe that the Canadian actuaries are in any way inferior to others. On some points I am bound to state I consider they are more reliable. We have seen some actuaries advance opinions which to my mind are contrary to common sense, and they are what are called eminent actuaries? A.—I think, sir, the actuaries to whom we referred were men of the highest standing, character and eminence.

MR. HELLMUTH: Up to the year 1899 or 1900 loading expenses were equal to the actual expenses for the business obtained, isn't that so? A.—I couldn't say off hand.

Q.—Have you ever looked at that? A.—I have, but for the moment I couldn't just say.

Q.—Do you not know generally from your knowledge that until 1901 the loading on premiums was equal to the actual expenses outside of investment expenses of the company? A.—It may have been so.

Q.—And in 1901 the loading was very close to the actual expenses. I see in 1901 the loading was $517,000 odd. I leave out the hundreds. And the actual expenses $535,000. I am not touching now the expenses for investment purposes, which I leave to bear their share from the interest earned from investments. Now, Mr. Sanderson, as a matter of sound insurance practice, should not the loadings on premiums be sufficient to meet the actual expenses of the business? A.—Would you allow me to make an explanation in reference to that?

Q.—No, I want to first ask you that as a matter of principle. Should not the loadings on premiums be sufficient to meet the actual expenses of the business outside of the investments? A.—I think it would be very desirable that the loadings on the premiums upon the basis upon which the premiums are constructed should cover the expenses.

Q.—And is not that almost axiomatic? Do not the British companies provide enough loading to cover the ordinary expenses of the business? A.—That is quite a common practice in Great Britain.

Q.—Now in the Canada Life since what we will call Mr. Cox's Presidency, since that time the expenses actually have gone away beyond the loading, there is no question about that. A.—Well, I want to make an explanation, right there.

Q.—Is that a fact, and then you may make the explanation? A.—Yes. Upon the basis of valuation adopted. Not upon the basis upon which the premiums were constructed,

Q.—No, but upon the basis of valuation adopted? A.—Yes.

Q.—Subsequently adopted? A.—Yes.

Q.—And the result is, as the figures show, that that is a steadily increasing amount, the difference between actual expenses and the loading? A.—That will occur even though you were to keep your expenses at the same rate as the previous year, if you increase your new business that is bound to keep on going up. Now in reference to this year, 1901, to which you referred, the report was made there on the basis of actuaries 4 per cent. valuation, so that the loading is on a different basis there than what it is in the subsequent years.

Q.—But after 1901 the basis for calculation is the same? A.—Yes, but you have got to read the loss from loading in connection with the gain from interest, you have got to take the two factors.

Q.—First of all the loss from loading is calculated on exactly the same basis after 1901, up to 1903? A.—From 1902 inclusive.

Q.—And in 1902 it has gone from $208,000 to 1905, $343,000. Steadily up? A.—Yes, and the new business—

Q.—I am coming to that. You were going on to say, as I have no doubt, Mr. Cox did say, that that was largely due to the volume of new business written? A.—Yes. Let me give an illustration. Suppose a company writes a certain volume of business this year at a commission basis of 60 per cent. They double their new business next year. They reduce the commission at the same time to agents. The ratio of expense to income will go up notwithstanding that you have decreased your commission.

Q.—Quite so, but is it fair to say that this increase in percentage of actual expense to the amount provided by the company for expenses is due to

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

the exceptionally large amount of new business that has been written? A.—That would be the cause of it.

Q.—That is perfectly fair? A.—That is perfectly fair.

Q.—Therefore, it is undoubted that that new business at the rate at which it has been written has taken from the company's funds more than they provided for the expenses? A.—More than the loading provided, yes.

Q.—Now all the profits that can be realized from the entire business of the company can be grouped, I think, in about four or five heads. First of all there is, I see in a manual of yours, "Instructions to agents," issued in August, 1902, three sources. I think there are a few more, but three sources of surplus are the savings affected by, first, investment of funds, so that interest earnings are secured well above those required to maintain reserves. Now taking the year 1905 and using "Gain on interest," as meaning the amount received over and above that required to keep up the reserve, and including in that an amount which is not referred to there, namely the profits realized on securities disposed of during that year? A.—$70,000 odd.

Q.—We have $356,607.71, that is the profits realized upon investments in 1905, I think I have got the right figures there? A.—I think that is correct.

Q.—And after allowing, as would be fair, for the expense of the management of those investments, that is deducted first? A.—Quite so.

Q.—So that you have there $356,607.71. "The next item of gain is Careful selection of Lives so that the mortality experience is considerably less than that provided for." You have under that heading a gain of $280,263.96? A.—That is correct.

Q.—Now you have not another item that you have also made a gain on, Surrenders and Lapses. That is not one that is referred to in your manual, I do not know why, but the gain that the company makes on the policies surrendered or lapsed, which I would like to deal with in a moment, is in that particular year $122,374.87? A.—That is correct.

Q.—Then there is another item not mentioned in this manual, and that is the gain on the securities valued or written up—I used "valued" for Mr. Watt's sake—valued or written up, which is $145,949.10, making a total of $905,195.64. That is, is it not, the entire profits of the year's business, have I not taken now all the sources of profit? A.—Minus the 445.

Q.—I am not taking minuses now; I am taking the entire sources of profit. You have here, "Third. Economy in management so that the expenses incurred are less than those allowed for in the premium loading." We have not any saving on that, the item is the other way? A.—On the valuation basis. On the basis on which the premiums were made there would be a saving.

Q.—On the valuation basis the item is the other way? A.—Yes.

Q.—Now you had to take from that $905,000 odd, $343,000 from those profits to meet the expense of new business, isn't that so? A.—I would rather put it that we invested part of the surplus in new business.

Q.—Is there any question about it that you had to pay out in cash for the securing of that new business $343,000 of the amount that you had earned? A.—Well, of course, it is perfectly evident that you cannot out of your first year premiums and even your first year mortalities cover the cost of your new business.

Q.—I am not saying that it is not evident, but as a matter of fact from your profits you had to take that sum to meet your expenses, is not that correct? A.—We had to get it some place, certainly.

Q.—And did you not take it from that? A.—It came from all these various sources.

Q.—Not from any one of them? But from them all combined? A.—From the various sources of surplus.

Q.—Will you tell me by what right or under what authority you take away any of these profits to secure new business? A.—I should say that would be a legal question.

Q.—You have, I suppose, seen your Act? A.—Yes.

Q.—And the Amendment to your Act? A.—Yes.

Q.—Have you ever considered whether under that Act the existing policyholders in the Canada Life were not entitled to 90 per cent. of your entire profits?

MR. McCARTHY: Does the Commission think this witness is a proper witness to ask a question of that character? My learned friend is perfectly at liberty to get out all the facts, and he has got the facts that from various sources certain funds were taken for certain purposes. Now that was either right or wrong. If it was

right or was wrong is decided, as he says, by the Charter which he puts in the hands of the witness. Now, surely it is not a question for the actuary of the Canada Life to answer, whether or not, by virtue of the Charter of the Canada Life, that which was done was right or wrong.

MR. HELLMUTH: I think the witness could possibly answer under what authority, if he was the actuary of the company, he would permit the funds of the company to be used. If he knows of any authority I would be very glad to have it? A.—I submit that is a legal question.

Q.—You have never considered it? A.—No, I have not.

Q.—You have said that the policyholders get 90 per cent., you have told my learned friend, Mr. Shepley, that they get 90 per cent. of the profits realized from the entire business of the company. They certainly did not as a matter of fact, in 1905 have 90 per cent. of $343,000? A.—As I interpret the Charter, it amounts to this; when you come to a division of profits the directors say, we will divide so much profits. Now the law, the Charter, says you shall give 90 per cent. of what you are going to divide to the policyholders and 10 per cent. to the stockholders. It does not say, you must necessarily divide the whole or even a part. The directors decide how much they shall divide and the Charter says you must give 90 per cent. of that to the policyholders and 10 per cent. to the stockholders.

Q.—Did you ever read the Act or from whom did you get that opinion?

MR. McCARTHY: My learned friend cannot argue the legal question with the actuary. If my learned friend wants to argue the question of whether that Charter means one thing or another, surely it is not the actuary with whom he should argue that question.

JUDGE MacTAVISH: The witness may say how the company interprets its position under the Charter and what it has done under it.

MR. HELLMUTH: He has said, your honor, what their Charter as he understands it, says. Now I have only asked him, what I think is perfectly proper, has he read that Charter? A.—Oh yes, I have read it.

Q.—I am speaking particularly of the Act of 42 Victoria. Have you read the preamble? A.—Oh yes, many a time.

Q.—I do not at all desire to discuss a legal question; if you say you have read that and that is your view, I must accept it. Your view then is that the directors can decide just what profits there are in the company irrespective of what are actually earned? A.—That is the contract between the policyholders and the company.

Q.—I thought you said the Act was that? A.—Well, that is the Act, but the contract with the policyholder lies in the policy.

Q.—Your contention as an actuary of the company is this, that if there were a million—for the sake of argument—of profits earned in a year or 5 million in a quinquennium the directors could do anything they liked in the way of securing new business or otherwise with two and a half milions of that five and only pay 90 per cent. of two and a half millions to the policyholders.

MR. McCARTHY: I submit that that question is entirely a question of law. He asks the witness whether he has read a section of the Act and the witness says he has read it. He has stated the facts with regard to that which is done by the company. What more can my learned friend ask of a witness who is an actuary and not a lawyer? If he wants the legal proposition further discussed, or any evidence upon the legal proposition, I submit that he should go to the legal authorities of the company. The section to my mind is perfectly clear. In my opinion there can be no doubt what it means, although my learned friend, with longer experience, suggests there is a doubt about it. However, if the chairman of the Commission will read that section, I do not think there can be any doubt about it, and in any event is it a question to ask this witness what his opinion is upon that section? If you read the section: (reads from "the directors of the said company" to "as between such assured and the shareholders.") It is manifestly unfair for this Commission to permit my learned friend, a man of the position and standing at the Bar that he has, to argue with a witness whose profession is that of an actuary as to the meaning of a section in the Charter of this company.

MR. HELLMUTH: I do not propose to argue with the witness. I want the witness's opinion. My learned friend has read a part of this section, for which I am very

much obliged to him, but he has entirely omitted to read what would give force to the words "such profits." I am going to read Section 1 so that your Honors will appreciate it. (Reads from "the directors of the said company instead of continuing to allot the profits realized in the business of the company as heretofore" to "are hereby authorized in their discretion to make such new allotment and division of such profits.") Now let us go back to the preamble to see what the profits are: (reads from "whereas the Canada Life Assurance Company have by their petition represented" to "75 per cent. of all the profits realized from the entire business of the company.") Now, whenever the word "such profits" occurs, it is all the profits realized from the entire business of the company. And then the proviso says, "provided that the proportion of such profits—"that is all the profits realized from the entire business of the company—"allotted to such assured shall not be less than 90 per cent." So that I am not going to argue the question but I wanted to find out the witness's view.

MR. McCARTHY: Mr. Sanderson tells me that the question has been submitted to the counsel of the Canada Life and he is prepared to inform my learned friend what that opinion is.

MR. HELLMUTH: Now the very thing that was objected to is going to be thrown upon me, Why? Because my learned friend thinks he has an opinion which will put his case in good shape. Surely that is a very funny position to take.

MR. McCARTHY: I do not know why my learned friend makes such a statement. The proposition of my learned friend was that he had a right to examine Mr. Sanderson on his idea of what that section meant; that is manifestly unfair, but I am quite content that he should get the legal position of the Canada Life.

MR. HELLMUTH: I do not want to examine Mr. Sanderson upon his idea of what the section meant. I stopped at that. What I do propose to ask him is what his view is as to what has been done, as to what the directors have actually done. That I do propose to ask him unless the Commissioners think I should not.

A.—Before reading the letter from Mr. Bruce on the question, might I explain that prior to getting this amendment the company had kept its With Profit policies separate, had kept its Non-Profit policies separate from the With Profit policies and that the shareholders received all the profits from the non-participating section as well as 25 per cent. from the With Profit Section. Now, for a time prior to the passing of this Act they had been giving the policyholders really 75 per cent. of the entire profits from both sections, and that is the origin of the use of the word "entire." In the year 1902 this question was brought to my attention and I submitted it to Mr. Bruce and I will read this letter.

MR. HELLMUTH: Just one moment before you read it.

JUDGE MACTAVISH: One question, more for my own information, in view of the discussion that has just taken place. I will try to eliminate any legal aspect from the question. Do the directorate claim the right under the Charter to determine the amount of profits to be distributed? A.—Yes, sir. The profits of a life insurance company are, of course, different from the profits of a trading company. You ascertain your liabilities. One man may bring out a certain profit. Another man would bring out a different profit. One actuary might say, you should have a special reserve for this or that. I say that the net result would be different, varying with whoever made it up.

Q.—That is, in your view, the amount of profits in any year, is more or less a matter of opinion, or a matter of bookeeping? A.—It is a matter of actuarial opinion.

MR. HELLMUTH: Then I understand, Mr. Sanderson, that you really have very carefully considered this question of profits; it is evident you have got an opinion on it? A.—I would not say I had specially, carefully considered it myself, but I submitted the point to Mr. Bruce and my attention has been called to that.

Q.—That is to say you were the medium through which a legal opinion was obtained as to the meaning of this section and you are quite familiar with Mr. Bruce's opinion? A.—Yes.

Q.—And were when you commenced to answer my question? A.—Well, I had not considered it very important from my own point of view. I was not the one to settle this point. I told you what our view of it was; I explained our interpretation of the Act.

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

Q.—Now I will be very glad to hear Mr. Bruce's letter? A.—(Reads exhibit 214, from "I have been a member of the firm of solicitors for the company since 1860" to "a brief prepared at the time," and from "now the interest on the shareholders' capital fund" to "if I have not clearly covered the point raised kindly let me hear from you.") I submitted that letter to Mr. Fitzgerald.

Q.—I will put that letter in, with the permission of my learned friend, as Exhibit 214? A.—That letter is on file in the Insurance Department at Ottawa.

Q.—Is that the only opinion you obtained from Mr. Bruce? A.—That is the only opinion I have any recollection of on that point.

Q.—The question apparently was not submitted to him as to the profits of the company belonging to the shareholders, except as to proportion? A.—It was the question of these entire profits. It was really the question of the word "entire." He explains the origin of the word "entire."

Q.—We get from you then, this, that whatever the profits may be from the various sources that have already been mentioned, and which appear to be all the sources from which profits can be gained, in 1905, covering almost every class of possible profit, whatever they may be, the directors in the view you have, could use or apply any such profits for any purpose that they might see fit instead of keeping 90 per cent. for the policyholders. That is your view, or the view of the company? A.—I, of course, will say that no Board of directors would do such a thing.

Q.—But your view is that they could? They could take $343,000 of it to pay the expense of getting new business? A.—Yes. As a matter of fact we have put upon the books in the last few years in England as much business as was put upon the books in the first 21 years of its history.

Q.—That I think we had very largely from Mr. Cox? A.—No, that never was mentioned until now.

Q.—I thought that Mr. Cox said they had put 40 per cent. of the entire business of the company? A.—Well, my statement is that we have as much business in force in England now as the company had in the first 21 years of its history.

Q.—Coming back for a moment, the directors did, as I understand you, in accordance with what they deemed their right, take $343,000 for the purpose of obtaining new business, paying the expense of new business? A.—They have purchased new business at a considerable cost.

Q.—At a cost of $343,000 over and above the loading? It surely is simply that, Mr. Sanderson, is it not? A.—That is a matter of opinion. The old business would have cost more. We are spreading by this operation the fixed charges over a larger area.

Q.—The cost of new business, in Exhibit 202, over not only the loading for such new business, but over that and the gain in mortality on such new business was $449,000 odd, is that not so? A.—The first year, yes.

Q.—So that you had to take $449,000 for that new business? A.—And the company always has been doing that. Every company.

Q.—Quite so. But that is a fact, to secure that business you had to pay $449,000 more than you got in from it? A.—No, more than the loading and the gain in mortality.

Q.—More than you had provided for its acquisition by means of loading? A.—Not more than the loading in the original premiums.

Q.—But more than the expense you had provided by way of loading to obtain it? A.—I wouldn't even say that, Mr. Hellmuth.

Q.—I would have thought that was a very simple question. You had provided for the expense of new business, a loading? A.—Certain loading is shown there.

Q.—And in this Exhibit 202 you have shown that the expense that you have provided by means of such loading and the gain that the business showed by way of mortality gains was insufficient by $449,000? A.—Yes, and the whole statement shows that there was a profit for the year of $505,000.

Q.—I am quite aware of that. I am taking the new business. I want to just deal with one thing at a time. That new business cost you $449,000, that you had to go somewhere else to get than from it? A.—Quite true.

Q.—And $343,000 of that, if you had used up all the loadings that were not required upon the renewal business, would still have to come from some of those sources of profit, I do not say which? A.—That is correct, as I say, on the basis of valuation, but not on the basis of loading originally made.

Q.—I have a statement here of the gain in 1905—one of those gains—on

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

Surrenders—it was $122,374.87? A.—Correct.

Q.—Now, if you will look at this little statement that I have had prepared, you will see that in 1901 the full reserves were $186,948? A.—What do you mean by the full reserves?

Q.—That is what those policies stood at, the full reserve against the surrendered policies? A.—Yes.

Q.—Was $186,948, and you actually paid to the persons who surrendered those policies or lapsed policies $96,960.78, so that the company had a profit, that is the difference between the actual payment and the amount you had at your credit in reserve for those policies $89,987.22, assuming that my figures have been correctly taken from the books? A.—Yes, that amount of money was released from the reserves.

Q.—Now you paid to those who surrendered or lapsed policies in that year 51 per cent. of what stood to the credit of the reserves of those policies, is not that right? A.—Well, of course, a large amount of those reserves would be in connection with lapsed policies.

Q.—True, but they only got 51 per cent., would that be right? A.—Those who took surrender values, who were entitled to surrender values, would get much more.

Q.—And those who lapsed would get much less? A.—Would not get anything.

Q.—But between the two, because we have not got them separated, the company paid 51 per cent. of the amount in reserve against them? A.—We never gave less than 2/3rds of surrender value.

Q.—Is that right? A.—The 51 per cent. is right, I presume.

Q.—Now, what I do not understand is, in the following year—without going through the figures all again—you gave back 77 per cent. instead of 51. How would you explain that large difference, you were much more generous to those who surrendered or lapsed in 1902 than you had been in 1901. Why? A.—I couldn't tell off hand, but there would be this possible reason that there may have been more actual surrenders by people who were entitled to it and less lapses. That would be a possible explanation, I do not know that it is the explanation.

Q.—Then in 1903 and 1904 you returned to your less generous mood? A.—The same explanation might apply.

Q.—And you gave 51 and 52 per cent. respectively. In 1905 you go back to 72 per cent? A.—Yes, I explained that.

Q.—So that 1905 was an exceptionally favourable year apparently; there were two good years out of five? A.—There was a special reason for 1905.

Q.—1905 was an especially large return to the company upon lapsed and surrendered policies? A.—There was a large percentage shown. The reason for that is very simple.

Q.—I was going to ask you that. It was larger, you see, very much the largest of these 5 years, in fact not quite $30,000 larger than the next largest. Now what was the exceptional reason for that being larger? A.—The reason was that in the year 1905 a considerable number of tontine policies matured and these policies were receiving, as we saw in the examination this morning, almost the full reserve. That won't occur next year. That ratio will go down probably next year. That was an exceptional year when these tontine policies matured.

Q.—Then would it be right and fair to say that you could hardly expect in another statement of gains or profits made by the company so large a showing as you had in 1905? A.—That will occur again in 5 years hence.

Q.—But not until 5 years? A.—Not likely.

Q.—The 1906-7-8 business would not be likely to show anything as large as that? A.—I don't think the percentage will show as liberally.

Q.—I am speaking only of per cent. I thought perhaps you could tell me what Senator Cox found it impossible to answer because he had not the figures, what proportion of your business, of the entire business of the Canada Life, written prior to 1900 might be expected to be on the books of the company in 1915? A.—I will answer that in this way; one of the members of my actuarial staff made a little estimate only yesterday, and he estimated 50 per cent.

Q.—He estimated that in 1915 there would be left 50 per cent? A.—Of the old business, yes. He also estimated that those policyholders would be in a better position by reason of the change of reserve basis than if we had gone on the other method.

Q.—That is the policyholders who are left? A.—Yes.

Q.—Because I suppose among those policyholders that are left you will

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

have the $2,500,000 to distribute. they would be the only ones entitled to it? A.—No, it would not be distributed. That is a liability.

Q.—You increase the reserves and you expect to gain all that back don't you? A.—To gain it back? In what way?

Q.—You took away from profit what would have gone to profits, $2,560,000? A.—Yes.

Q.—In order to strengthen the reserves? A.—We did.

Q.—50 per cent. of those who would have been entitled to share in it and amongst whom it would have been distributed are off the books of the company before 1915? A.—Yes.

Q.—None of the new people are to get any of that, it is to strengthen the reserves of the old business? A.—No, they provide for themselves.

Q.—So that whatever is gained upon that, unless any small amount that may be distributed before 1915 would come back to those who survive the period; whatever profits were earned upon that $2,500,000, and the amount itself, that would come back would it not? A.—There would be a substantial profit up to that period to all these policyholders.

Q.—But they are losing meanwhile? That has been quite clearly demonstrated unless Mr. Cox is mistaken? A.—There is no doubt that these very old policyholders who die in the meantime won't be in as good a position as if that money had been distributed, but they had received all they are entitled to and more.

Q.—We have heard that? A.—And those people who came in say in the late 80's and 90's and along in that period will benefit, and they are the people who ought to benefit.

Q.—Just for a minute leave out that the old policyholders got more than they were entitled to? A.—That is the fact.

Q.—Had that money that was taken for reserves been distributed in the way it had been distributed previously, these people would have got very much larger sums, there is no question about that, you could have paid them 2¼ or 2½ per cent? A.—The same gentleman to whom I referred estimated that if we had paid 1½ per cent. at each quinquennium up to 1914 the company would have had to have passed a dividend at 1914.

Q.—That may be so, but I am not asking that at present. I want to know if you had gone on without changing the reserve as you did, there would have been the same 2½ or 2¼ per cent. dividend at each quinquennium? A.—I don't think so.

Q.—Was not the $2,560,000 added to what had been divided, sufficient to make up 2¼? A.—I doubt if we would have in any event paid more than, looking to the change in the Act—

Q.—You see you get back to looking to the change? A.—We had to provide for that, necessarily. It was the law.

Q.—But supposing first of all you had not provided for the change at all up to 1910, you had it on the 4 per cent. basis, and had not to provide for any change until you got to 1915 when the 3½ came in. Now supposing you had made no provision for that whatever, will you say the Canada Life could not have paid 2¼ to 2½ per cent. at the quinquennium? A.—That is my firm conviction.

Q.—That they could not have paid that? A.—Yes.

Q.—Without making or looking to any provision for the future? A.—I think so.

Q.—If you took the $2,560,000 and added it to the $1,013,000 I think it is that you divided—can you tell me what you provided in 1905? A.—I think the President mentioned something like $1,200,000 did he not?

Q.—You divided $1,200,000, and you carried forward $393,000. You divided over $900,000 in the quinquennium before, and you had applied $2,560,000 to the strengthening of the reserves. Now will you say that all those sums together would not upon the policies of the Canada Life have brought in 2¼ per cent.? A.—They would have had of course to have brought the reserves to a four per cent. basis. That was necessary both in Michigan and Canada in '99. and the estimate is that we could not have paid at the outside, it would have been less than 1½ per cent.

Q.—You say that if you had brought simply to 4 per cent. the estimate was that the outside you could have paid was 1½? A.—Less than 1½ per cent. and then we would between 1909 and 1915 have had to make a complete change over to the 3½ basis, and at 1915 it is a question whether they would not have had to pass the dividend altogether.

Q.—Do you agree with the President when he thinks there will be a very considerable increase in the amount available for distribution in

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

1909, that there will be a very considerable amount of increase over what was paid at the last quinquennium? A.—I would say so, yes. We paid 1 per cent. in 1905.

Q.—And three-quarters of 1 per cent.? A.—Prior to that.

Q.—You paid three-quarters of one per cent. in 1900, and 1 per cent. in 1905, and what is your estimate for 1910? A.—With your permission I would not like to make an estimate. I object to making estimates.

Q.—The President's estimate we cannot get at exactly, but we can get what is the minimum of it, because he said in speaking of the minimum system that in 1910 the amount would be sufficient in his judgment to not only keep the minimum policies clear, which would require 1¼, but to reduce the lien which was existing against them? A.—He is the president and I am the actuary.

Q.—You heard that? A.—I heard that. I did not acquiesce in it.

Q.—So that if he were correct we would have at least something over 1¼ per cent. in 1910? A.—According to his view.

Q.—Do you expect that it would be better in 1915? A.—Yes, my own conviction is that the change of the reserve basis will produce increased profits from quinquennium to quinquennium. That is the whole principle of our system of strengthening the reserves. I would like to read a letter just received from England the other day.

Q.—You know I do not propose to prevent you reading anything that you think will bear on this. I want you of course to answer my questions but I do not want to cut you off? A.—I won't read it if you say so.

Q.—Read it certainly, but perhaps it will be better after the adjournment.

MR. McCARTHY: My learned friend Mr. Hellmuth put in what Mr. Sanderson handed him as Mr. Bruce's opinion. In a document which is already before you, the report of the last annual meeting of this company your honors will there find Mr. Bruce's opinion. With your honor's permission I will read a few words from it. (Reads from "When I learned the action of the Directors" to "credit of the policyholders of the Canada Life.") I read that to show that the matter has been very thoroughly considered by the counsel of the Canada Life and was before the policyholders and shareholders at the last annual meeting. That is in Mr. Bruce's address given at the last annual meeting.

(Adjourned to 2 o'clock.)

AFTERNOON SESSION.

Resumed at 2 P.M., June 7th, 1906.

Examination of Mr. Sanderson continued:

MR. HELLMUTH: I think, Mr. Sanderson, at the time of adjournment you had a letter that you were going to suggest reading in reference to the question? A.—Perhaps I may defer till you are through.

Q.—I was asking you that in reference to this amount that was taken from profits to add to the reserve to bring it from the 4 per cent. basis to the 3½, roughly speaking how much was it, $1,070,000 out of $2,650,000? A.—In 1899 I think that was it.

Q.—About a million dollars in round figures? A.—That would include the $500,000 special reserve.

Q.—Perhaps you will tell me what amount was required roughly to bring the reserves from 4 per cent. up to 3½ per cent.; I do not care when or how it came, but what about was the amount? A.—I will try and give you that, the excess of the Hm. 3½ over the actuaries 4 was $1,267,000.

Q.—About we will say $1,250,000 in round figures? A.—Yes.

Q.—No part of that reserve would fall into the surplus of course? A.—No, once it is created a liability it is a liability.

Q.—And therefore it could not be used to pay dividends to policyholders? A.—That would follow.

Q.—If the rate of interest does not fall below 4 per cent. up to, well a date when all the policies written prior to 1900 fall in, if the rate of interest does not fall below 4 per cent. during the period in which all the policies written before that date mature—you follow that? A.—Yes.

Q.—Would not the 4 per cent. reserve be enough to pay all those policies? A.—Yes, if the rate which you earn is equal or greater than the rate assumed it necessarily follows you can carry out your contracts, but for a company doing with-profit business, and especially with a system of reversionary bonus which we have it is essential that you have a substantial margin of interest earned over and above what is assumed, in fact our sys-

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

tem of reversionary bonus would so to speak break down unless you keep up that margin of interest, and that is why the British companies which have the same system as ours seem to have considerable margin of interest earned over and above that assumed.

Q.—That I understand, but upon agree with me that provided you keep on earning 4 per cent. or over not any portion of the amount, the $1,250,000 in round figures, for the purposes of a reserve would be required to meet the face value of those policies? A.—In so far as the rate earned is over 4 per cent. that will go towards surplus and profits.

Q.—But what I say is as long as the rate does not fall below 4 per cent. not one copper of that $1,250,000 would be required or will be required on that assumption to meet the face value of those policies? A.—I think that would follow.

Q.—If that is so where and to whom does that $1,250,000 go? A.—It goes, as soon as the liability was set up, that fund went immediately to the credit of the various policies, and when a policy becomes a claim the claim is paid out of the reserve at the credit of the policy, and the balance upon the current mortality.

Q.—Let me ask you, does that statement mean that the whole of that $1,250,000 will be divided among the old policyholders, that is those policyholders who were on the books of the company prior to the first January, 1900? A.—Yes, and no, a portion of that $1,250,000 of course went to strengthen the reserves on the tontine policies that were in existence then as well as on the quinquennial, if I follow your question.

Q.—Those policyholders who were on the books of the company? A.—Yes.

Q.—I am not distinguishing between classes at all now? A.—Put your question again.

Q.—Will the whole of that $1,250,000 be divided amongst the old policyholders who were on the books of the company prior to 1st January, 1900? A.—Yes.

Q.—So that they may look for not only the profits that are to be earned, but they may look for the actual returns, not only the profits to be earned on that $1,250,000, but they may look to the actual returns amongst themselves, difference of proportions of course of that $1,250,000, the whole of it? A.—They will eventually get the whole of it back when they become claims, and it will earn profits for them.

Q.—Not one copper of that will be used for the procurement of new business? A.—Set up as a liability it cannot be.

Q.—And nothing of it will be used to be distributed amongst policyholders who come in after the first January, 1900? A.—That is correct.

Q.—So that the old policyholders will get all that was taken from them to change the reserve from 4 to 3½ per cent. plus the interest earned upon it? A.—Yes.

Q.—That is your contention? A.—Yes.

Q.—50 per cent. of the old policyholders will get very little of that, it will go, to a fairly comparatively small class—I won't say that, but to not the majority class? A.—No, but they will be getting in 1909 a considerable profit, they will be getting another one in 1915, and these tontine policies as they mature they will get their portion of it.

Q.—But all of those policyholders whose claims fall in before 1909 will lose a substantial proportion of what they would otherwise have got undoubtedly? A.—That always happens where the company strengthens its reserves.

Q.—That is so? A.—Yes.

Q.—And those who remain will get more than they would have been entitled to had it been distributed? A.—They would get a larger amount than if it had been distributed.

Q.—Then the whole of that $1,250,000 is to be returned to the old policyholders unless the rate of interest falls below 4 per cent., what was the necessity of taking it away from them at all? A.—I would answer that question quite frankly; I think we ought to judge this transaction not in the light of the present day, but in the light of the situation as existed when the thing was done. If you go back to 1899 when these opinions were obtained, when the situation was all looked over, when the opinions of these financial men all over the country were obtained, when these addresses of Mr. Ramsay were delivered, everything pointed I think clearly to the wisdom of the change. It is true that the interest rate has taken a different turn upwards since then, and if that trend had been clearly foreseen I could not say just now what the action of the directors in 1899 would have been.

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

Q.—That is to say if they had been able to clearly look into the future and see that the rate of interest having dropped was likely to again advance it might not have been necessary to do this in the way in which it was done? A.—Quite so. We had as I said the opinion of Mr. Clouston, a most eminent man. Beginning away back in about 1876 and along there; the directors of the company obtained the opinion of eminent financiers, men who could sort of gauge the rate of interest for a series of years, and the prevailing opinion of all men competent to judge at that time was that the rate of interest should be maintained at 6 per cent. for a generation, but history falsified that.

Q.—And history falsified the prediction of these eminent financiers whom you consulted in 1899? A.—No doubt of it. It is a temporary change but there is no doubt that the trend of interest generally will be downwards.

Q.—I fancy that is somewhat a large question? A.—Yes, a very large question.

Q.—And one upon which eminent financiers differ? A.—They do.

Q.—The rate of interest has been very, very variable for the last 150 to 200 years in England, has it not? A.—Yes.

Q.—Have you followed it at all? A.—Yes, if you follow the trend of interest as represented in the experience of life insurance companies and take the curve you will find the curve is gradually downwards.

Q.—But the rate of interest has been lower than it is now, it has been of course higher, it has fluctuated up and down? A.—Yes.

Q.—And the English companies, during the last, I think Mr. Watt was good enough to give me a chart, even since 1888 the English companies have been fairly on the upward grade as well as the Canadian, have not they, the last few years—the English companies according to this chart in 1888 started between 4.1 and 4.2, and with ups and downs end in 1902 at 4.1? A.—Yes; you see there—

Q.—They went down and went up? A.—Yes.

Q.—But taking that period of 14 years the first year and the last year are practically the same rate of interest? A.—I would say the general trend has been downwards take it right through. It is true at one point it is more and another point it is low. I think I ought to say in that connection since that time, since 1899 we have had the Spanish-American War, the South African War, the Japanese War, and the remarkable development of the Northwest territory.

Q.—The lowest point that the British table touched at any time was in 1899? A.—That is true.

Q.—And then it did not go as low as 3.9, it was between 3.9 and 4 per cent., that is the lowest point at which it was in the fourteen years? A.—Apparently.

Q.—The British Companies' rate of interest in 1888 started at between 4.1 and 4.2, it ended in 1904 at 4.1, and the lowest point which it touched during all that period was a fraction higher than the 3.9—that is right? A.—Yes.

Q.—And the highest point that it touched during all that time was a fraction higher, not half way, a fraction higher than 4.3; perhaps we ought to say 4.4? A.—That would appear to be abnormal.

Q.—We will say 4.3, would that be probably right? A.—That is what that chart shows. I do not know what that is.

Q.—That is the Economist Interest Chart, kindly lent me by Mr. Watt; that would show a very small fluctuation now in English rates of interest? A.—It is quite true in an old established country like England the fluctuation in rate of interest will be comparatively small as compared with a new company like Canada.

Q.—All that time with the exception of the years 1898 and 1899 the rate of interest was practically 4 or about 4? A.—There is a remarkable trend downwards from 1894 to 1899.

Q.—It is above all the way until it gets to 1897, it is above 4 per cent? A.—Yes.

Q.—Would not that imply that it was very unlikely that the rate of interest in England would be much, if at all, that is the rate of interest earned by Life insurance companies, much if at all below 4 per cent., the average rate? A.—For what period of time?

Q.—For any period of time, is there anything there practically to indicate within—I am not saying 100 years hence—but within the next ten or twenty years, is there anything there to indicate a much lower expected rate than 4 per cent? A.—I would not think there would be much to indicate that for the next ten years, for England, but in that connection I

37th day, June 7th, 1906.

(Canada Life, F. Sanderson, Ex'd.)

would ask myself the question, Why do British Companies even in the face of that rate of interest value so low as $2\frac{1}{2}$ per cent?

Q.—I quite understand they do have that rate; they may have their reasons for doing it, and you may be following those reasons here? A.—The reasons are for the benefit of the policyholders. Might I say again, I am not sure whether these represent the actual investments of British companies in England, it may possibly have reference to their investments in Canada; they have been investing a large amount of money in Canada.

Q.—You do not mean that this chart implies that it is only the funds of British Companies that are invested in Canada that earn this rate of interest?

MR. WATT: That has been suggested, and we do not know quite clearly on what basis that is formed.

MR. HELLMUTH: Q.—The chart shows it is average rates of interest earned by life insurance companies doing business in Canada, and then it gives the Canadian Companies, the American companies and the British companies; I assumed it meant earned on their entire investment funds, wherever they might be? A.—It is possible, but it is not certain.

Q.—I do not know whether I clearly understood your explanation of this tontine policy which was put in (Exhibit 210) it is number 26 in the forms. I am speaking now of the accumulation, that reads: "This policy is issued upon the company's accumulative surplus system. If the assured be living and the policy be in force on the 28th day of July, 1924, which is the end of the accumulative surplus period of 20 years, the company will then apportion to this policy its share of the accumulative surplus. Prior to the above date no dividend shall be apportioned to this policy, but the assured or other person entitled shall upon that date have the option of one of the following settlements"—is that a form of policy still issued? A.—Yes.

Q.—Is it correct that until the 28th day of July, taking this specific instance 1924, no dividend is apportioned to that policy? A.—According to the terms of the contract the policyholder is not entitled to any specific declaration of dividends upon the policy .

Q.—It is true, you see the language seems to be very explicit, no dividend shall be apportioned to the policy—is any dividend apportioned to that policy as against the terms apparently of the contract—I do not say in reality, because I have only just read it there, will any dividend as a matter of fact, until in 1924 be apportioned to that specific policy? A.—The surplus is allocated to the respective classes of insurance in the respective years, and it is possible to find out the apportionment assigned to that policy; we would not treat that as an apportionment to the policy and give it to him, he has no claim upon it, just as on a quinquennial policy he is not entitled to any dividend until the end of a quinquennial period.

Q.—What proportion have you of those accumulative surplus policies, what proportion of those have you to your general business? A.—A considerable amount.

Q.—Would you say 30 or 40 per cent. of the whole business would be in that class? A.—I could not say off hand, but the recent business is largely of that class.

Q.—When you say recent am I right in supposing you refer to business written since 1900? A.—Yes.

Q.—You say that a considerable proportion would be, sometimes called tontine system? A.—Yes.

Q.—That is practically a pure tontine? A.—No, we never issued a pure tontine.

Q.—That is a semi-tontine? A.—Yes, deferred dividend.

Q.—And a large proportion, you cannot say just what, is on that; can you show me where in your statement of 1905 the opportionment for the surplus appropriate to these deferred dividend policies is put? A.—A large portion of the surplus earned by these policies has been placed directly to their credit under the head of Liabilities.

Q.—Under which liability not under this? A.—Yes.

Q.—Under the net re-assurance reserve? A.—Yes.

Q.—Then actually the amounts which go to make profits or surplus for the tontine policies is under net re-assurance reserve. A.—I do not think you quite understand me. In the strengthening of these reserves a large amount of the surplus earned from time to time was put to their credit to bring the reserve up to the new standard and to that extent that surplus is valued as a liability.

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

Q.—But that was not anything that would give to that policy anything more than its face value, you only strengthened the reserve, the policy up to its face value, not with any bonus addition? A.—Yes, but when that tontine period matures that man is entitled and can get that.

Q.—It would be correct to say that part of the anticipated value that is to be earned by a tontine or semi-tontine policy was taken and put under the head of Net re-assurance reserve? A.—Part of the surplus earned by these tontine policies is carried into that.

Q.—So that part of surplus of the tontine policies went under that heading? A.—Yes.

Q.—Otherwise there was really in this statement no provision for the surplus or profits of those tontine policies? A.—Only on the unassigned surplus at the end.

Q.—That is to say, the only column out of which they could get what profits had not been set apart for them under re-assurance would be the $393,403.28 net surplus over all liabilities? A.—I would not even assent to that; that requires explanation too, because we keep our tontine policies separate, and there is positive surplus and a negative surplus; these older policies have really a large surplus to their credit.

Q.—I do not know that we will trouble so much about negative surplus, if you will let us have the positive surplus; where is the positive surplus outside of the $393,000 beyond what you have put under the heading of Net re-assurance reserve? A.—It would be the balance of the two deposited in the negative; if you do a large new business you are necessarily creating a liability.

Q.—But there was no source out of which if you had stopped business that day, the 31st December, if you had stopped business and had apportioned then amongst the survivors the profits earned on these semi-tontine policies, would they have had to go to one of the two sources to pay them, the 28 millions of net re-assurance reserve and the $393,000 odd dollars of surplus? A.—We could not divide that surplus amongst them by the terms of the policy.

Q.—I understand, because they had not lived out their period? A.—Yes.

Q.—But if you had wanted, you had something earned upon those policies undoubtedly of surplus? A. The older ones had large surpluses earned upon them, the recent policies had not.

Q.—Had little or nothing? A.—Yes, and it was only justice that it should be put to the credit of those who had earned it, and unjust to put it to the credit of those who had not earned it.

Q.—But the only source from which that could have been taken was either the net re-assurance reserve or the $393,000 surplus, there was no other item out of which you could have taken it? A.—No, that is quite true.

Q.—To what extent do you think that $393,000 might be fairly charged in order to make good the surplus standing to the credit of the older, that is those that had really earned surplus? A.—I could not answer that off-hand.

Q.—Would it be the whole $393,000 and more? A.—I would think it would take more than that.

Q.—With what the semi-tontine or accumulative, whatever you like to call that class, with what they were entitled to by way of surplus the whole of the $393,000 was gone, and there was practically no surplus whatever for the other policyholders in the company, that must be so? A.—If that whole amount had been set over to the credit of the tontine.

Q.—Why did you not put an amount in the statement of assets and liabilities, why did you not show in that statement the amount that would be necessary to make up that surplus for that class of deferred dividend policies? A.—It has never been required.

Q.—Because you were going to earn it in future years as it came down? A.—It has never been called for by any department.

Q.—But it was in reality a liability growing with each succeeding year? A.—Not a legal liability, a sort of contingent liability.

Q.—A potential liability which you eventually would have to meet? A.—Yes.

Q.—That if you did not provide for it in those statements you would be obliged to take the profits earned in future years to make good the surplus that had previously been earned by these semi-tontine policies? A.—The capital stock would stand behind any deficit—

Q.—So that practically you had to fall back on your capital stock to provide for the liability of the semi-tontine policy? A.—That is what

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

every company does, which transacts large new business.

Q.—The Canada Life is not in that respect in any different position? A.—No. It is a case where capital stock comes in handy.

Q.—Would it be possible for you to give a statement approximately of the amount of business on that accumulative surplus or deferred dividend plan, the relation it bears in quantity to the other class of business? A.—I could not give it accurately.

Q.—Could you make out that without much trouble, would it be possible to do it? A.—I presume it might be possible.

Q.—I would like to have an idea of what proportion that bears so as to gauge how far that might entrench upon the surplus. During the course of your examination by Mr. Shepley my recollection is you stated that so far as the non-participating policies are concerned 15 per cent. would be a proper loading? A.—15 per cent. was the loading on the net premium basis used.

Q.—For the non-participating policyholder? A.—Yes.

Q.—And the loading for the participating policyholder according to the different class of insurance, is not that right, I mean it is not constant for all participating? A.—No.

Q.—And perhaps you will take the same position that some other actuaries have taken, although I do not at all desire that you should follow them if you will not, that they cannot distinguish between what proportion of the loading on a participating policy is for expenses and what part is for profits—they said they could not do that? A.—I think that would be the answer made by actuaries generally in Canada, and I would make the same answer

Q.—So that what we might say is this, that on the participating policies the whole of the load is for both expenses and profits? A.—I would not object to that way of putting it.

Q.—Would it be fair to say this, that you would feel perfectly justified—of course you have done a little more—but you would feel perfectly justified in using it for expenses, the whole of the load, although it is partly for profits and partly for expenses, because you would say to the participating policyholder, When you pay us that increased premium you will become a sharer in all the profits that will be earned by the company from its various sources in contradistinction to the non-participating policyholder who won't get a cent of those profits? A.—I would say that if a company were doing a very small business or no new business that it should keep well within the loading, but if it is doing a considerable large volume of new business it will be very difficult or impossible to do that, it is investing so to speak part of the new money in this new business.

Q.—And I understand, I want to put it as I get the understanding from others, that it is not looked upon as really bad insurance practice to use up all the loading so long as the profits are for division among the participating policyholders—I am not taking up the vexed question of going over it, but using it up to the extent of the loading? A.—Conditions in Canada and the United States have apparently made that necessary.

Q.—I notice in the Minnesota report for 1905 that the loading is getting nearer the amount required for expenses than it was in the preceding year, and so on year by year, that the amount provided for loading comes more nearly to meet or overlap the actual expenses than it did—have you noticed that? A.—I do not think I have.

Q.—In taking all these companies. and there are a great number here in Minnesota, apparently in taking all these companies the actual percentage of expenses to the loading was in 1905 for all these companies only 96, they did not use up their loading? A.—Yes, but in that connection it is only fair to the Canada Life and to the Travellers' Life to make the explanation. The Travellers' Life, a very excellently managed company, managed entirely in the interest of stockholders—

Q.—You mean policyholders? A.—No, stockholders, practically a purely stock company; their ratio of expense to loading is 169 per cent., which is higher than ours, and that is due to the loss from loading brought about by the fact that they changed their valuation basis on all their old business on 3½ per cent; the loading has largely gone in the valuation, but it re-appears in the interest factor, and as time goes on it will still further reappear, so that this table is unfair to the Canada Life and the Travellers'. On our old policies the loading is exceedingly small, in some cases almost none. Some of these old life ten pay-

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

ment policies it is not equal to the net premium; they are paid up now, most of them.

Q.—We have got away a little, but I would like to follow that up; you are speaking of course of premiums over which you have no control, that is to say you made your contract some time ago and you cannot raise your premiums? A.—Yes.

Q.—That is the class you are speaking of? A.—Yes.

Q.—But of course you would not deliberately now allow a policy to be issued with a premium that would not be adequate to provide for expense? A.—Not if I could help it.

Q.—I want to show you how the tendency has been downwards; leave out the Canada Life altogether, I was not using this to make an unfair comparison now between the Canada Life but the percentage has fallen? A.—You are speaking of all the companies, or one particular company?

Q.—No, I am taking the whole of the companies that are set out here, 40 or 50 companies I should think, and the average percentage in 1901 was 97, and then they went up in 1902 to 99, and in 1903 it was 99, still under the actual, and 1904 it was 98, and in 1905 it had gone down to 96, a downward tendency? A.—Of course it is again only fair to say that in the making up of this exhibit companies will treat their expenses somewhat differently; some will shunt a considerable volume of expenditure over into the investment side, so that it would not always be made up in the same way by different companies.

Q.—But you have put over into the investment side the expenses of your investment in this? A.—Yes.

Q.—You have no reason to complain of the accuracy of this report in regard to loading apart from what you have told me about it being unfair by the change of rates, but they have taken your own figures? A.—Yes, different people making it up as regards expense would make it different.

Q.—Assuming the companies who made their returns made them as fairly as the Canada Life has made them, it would be a sign that the ratio has fallen? A.—The rate is pretty even.

Q.—It has gone down from 99 to 96? A.—Yes.

Q.—All these companies combined have 4 per cent. of their profits? A.—The large companies have had excessively higher premiums than they ought to have.

Q.—It is no doubt the other companies may have had excessively high premiums; your policy that you gave an illustration of at age 35, on a 3 per cent. reserve basis, has a premium of $28.10? A.—Yes, I think that is right.

Q.—I think that is the new book? A.—Yes, and that is an older manual, that was in 1901. That manual is practically withdrawn. This other is the present rate.

Q.—Would you tell me what the premium was upon that policy before you adopted the 3 per cent. reserve, how much has the premiums been increased for the 3 per cent. reserve—I suppose you had a similar policy before you had a 3 per cent. basis, before 1901? A.—It would be the old low premium.

Q.—Could you tell me what it was? A.—$25.70.

Q.—You have raised it quite a bit? A.—Considerably.

Q.—I should imagine that would be so, in order to have practically the same amount free that you have appropriated the net premium for the reserve? A.—Yes, and looking forward to a 3 per cent. rate of interest in the future that is necessary.

Q.—I understand from the tables I have here that the net premium on that policy would be $21.93? A.—Which policy?

Q.—On that age 35 policy, with a premium of $28.10, the net premium at 3 per cent.— A.—I take it for granted that is correct.

Q.—I looked it up myself; the net premium is $21.93, leaving $6.17 for loading? A.—On which policy?

Q.—The new policy, last policy, age 35, life, participating, $28.10 gross premium? A.—Yes.

Q.—Net premium $21.93, loading $6.17? A.—$6.17 on the new premium over the 3 per cent. net premium.

Q.—And that means you would have to put away year by year of that premium $21.93 into your reserve? A.—You are teaching me a lesson.

Q.—Does not that go to the insurance reserve and paying mortality? A.—And paying mortality.

Q.—I mean you have to keep it, you cannot use it, can you? A.—Only in so far as there is profit from interest and profit from mortality.

Q.—You get interest on all your reserve? A.—By that I mean interest over the above rate assumed.

Q.—Of course that is part of your profits, you only calculate that at 3 per cent.? A.—Yes.

37th day, June 7th, 1906.

(Canada Life, F. Sanderson, Ex'd.)

Q.—You get interest at 4½, you have 1½ per cent. on that? A.—Yes.

Q.—But that amount is required to meet the mortality claims—I am not allowing for gains of mortality—and to meet the reserve? A.—On the assumption of that net premium being a true net premium.

Q.—So that to a certain extent is segregated, that $21.93? A.—Yes, it depends what net premium you took.

Q.—I took it at the Hm. 3 per cent.? A.—The New Experience table would bring out a lower net premium, very considerably.

Q.—I took it on the same as your blue book shows you valued, the blue book shows your valuation was made on the Hm. Institute of Actuaries, table at 3 per cent.? A.—Yes.

Q.—That is the table I used; and the net premium is as I have given it to you, about $21.93, so that it leaves as I said $6.17 for the loading for expenses and profits? A.—I would say there, there is really more loading than would appear therefore the reason that the true net premium as shown by the most recent experience would show a somewhat larger margin of loading.

Q.—You have made all your calculations and gains on mortality on the Hm. 3 per cent.? A.—We value upon it.

Q.—I am making allowances for what you gain in mortality, you cannot get it both ways; if you take the other table your gain in mortality will be much less? A.—It is a question.

Q.—If you value upon a table with another death rate that is more severe than the Hm. table, you won't have the same result as if you take the Hm. table when it comes to gains or losses on mortality? A.—You cannot tell off hand what reserve would be required by different tables of mortality without actual investigation.

Q.—Assume $6.17 is the loading, expense and profits, it is not at all events either for reserve or mortality that amount? A.—No.

Q.—Then when you come to the non-participating policyholder at the same age 35, the premium is $22.90? A.—Yes.

Q.—As against $28.10, that only leaves you 97 cents for loading for expenses—of course he has got no profits, that is all there is left? A.—On that basis of premium, but I come back again to the very same point, that there is really more loading than would appear there on the true net premium basis. That would be a loading, as you say, on the Hm.

Q.—So that on the Hm. there is 97 cents.,and that would only mean 4½ per cent. loading on the net premium, a little less than 4½ per cent.; you spoke as 15 as the proper loading for non-participating policyholders; where do you get the other 10½ per cent.? A.—Of course these non-participating premiums were really based on a 3½ per cent. rate of interest.

Q.—Then if it is based on 3½ per cent. rate and you are reserving on 3, are you quite fair to do that, don't you imply when you put your reserve on 3 that you make the man pay a premium that will keep up three? A.—I would say, to come back again to the British companies, they will value on 2½ per cent. basis with a premium possibly based on a 3½ per cent. rate of interest.

Q.—They are only doing that for the purpose of competition? A.—No, they are doing that for the purpose of benefiting their policyholders generally.

Q.—There cannot be much profit to a policyholder if you value at 3 and put his premium say at 4? A.—There will be substantial profit from the interest factor.

Q.—What is the object at all of putting down, if you can carry him in that way, if you can carry him on a 3½ per cent. premium, why cannot you carry at 3½ per cent. reserve? A.—So we could.

Q.—You could carry all these people on a 3½ per cent.? A.—But if the rate of interest may in future years to come fall down to 3½ or 3 is it not the part of wisdom now to gradually build up this reserve and forestall doing the very thing we had to do in 1889?

Q.—But you tell the public you have put your company upon a 3 per cent. basis from the first January, 1900, and you do not take from them 3 per cent. premiums? A.—I think a true select net premium based on the recent experience will bring it about the same premium as the Hm. net 3½ per cent.

Q.—But you do not value anything you have got on the select, you value all your business upon the 3½ in the blue book, you do not take that table A.—The old business is valued on 3½.

Q.—And you value all the new business upon the Hm. 3? A.—There is very good reason for that.

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

Q.—Then you take credit for anything you gain over and above that by way of mortality in your gain column? A.—Yes, and all the gain which arises from the non-participating policies goes to the with-profit policyholders.

Q.—I want to get from you how can there possibly be any profit whatever from the non-participating policyholder when his premium is only loaded to 4½ per cent., how can there be any profit—you say it takes 15 to carry you, how could there be a profit on 4½? A.—If you get a true net premium based on the best experience there will be about 15 per cent. loading on the net 3 per cent. basis.

Q.—You say it takes all of 15, you told Mr. Shepley the other day to carry the non-participating? A.—There will be gains from the mortality and interest factors of those policies.

Q.—I thought you had taken the mortality gains into your table now? A.—Our own experience is better than even the new select O.M. experience.

Q.—I am told, I do not know at all whether the authority is any good, I am told that all these non-participating policyholders have the softest sort of thing at the expense of the participating policyholders, that they had to carry them, would you say there is no portion in the Canada Life in the past years of the profits made out of participating policyholders and no part of the loading on participating policy premiums gone to support the non-participating policyholders? A.—I would say this from my observation of claims as they have come before our Executive Board, it has been manifest that it was best for the policyholders to have taken that policy.

Q.—I did not ask that; that is not answering my question; I will tell you this; I have asked in my own experience three personal friends in insurance companies what was the best policy to take out—I did not ask them as agents—and every one gave me the same answer, take a non-participating without-profit policy, because you will be carried by the participating policyholders—what do you say to that? A.—We will have to send one of the representatives of the Canada Life.

Q.—I did ask a representative of the Canada Life, he is not with them now, and he told me exactly the same thing, and tried to dissuade me from taking a participating policy in the Canada Life—I am asking you now will you say that no portion of the profits earned from moneys of the company, and no portion of the loading from the participating policyholders' premiums has gone to carry the non-participating policyholders? A.—I could not possibly say one way or the other. I think I could get an exhibit to prove the contrary.

Q.—I quite understand you can bring me a policy with-profits that has done perhaps much better than another policy without profits, but I am asking as a class whether the non-participating policyholder does not get assistance from his participating brother or from the profits of the company, rather than the other way? A.—I would think not. not in our company.

Q.—As a matter of fact your company do not advocate, notwithstanding your President's views in that respect differing from you, you do not advocate the non-participating policy? A.—We offer to anybody who wants it.

Q.—You rather discourage it, don't you—I would rather show you what your literature says; paragraph 163 of your instructions to agents there is this language: "Under the non-participating system in consideration of receiving no share in the division of surplus policies are issued at lower premium rates than under either of the surplus systems, but while this means less in cost for a few years, the experience of policyholders has shown that participating policies are the more profitable for the assured eventually. Agents will do well therefore to submit non-participating propositions only when forced by circumstances to do so?" A.—That is in the interest of the policyholder.

Q.—Hear me, you did not suppose I would suggest anything else; but that is a fact, that it is part of the policy of the Canada Life in its instructions to agents not to advocate or submit the propositions of non-participating policies unless forced by circumstances to do so; would that be the policy to-day? A.—If you read the whole paragraph together.

Q.—Would that be the policy to-day? A.—I would say that the policy would be to give the assured the kind of policy he wants.

Q.—Not to keep away from him the non-participating? A.—No.

MR. KENT: I would like to know if it is not the fact that nine out of every ten people who are going to be insured have no idea what sort of policy it is; I would like to see the reply made fairly. When I was insured

37th day, June 7th, 1906.

(Canada Life, F. Sanderson, Ex'd.)

I had not the slightest idea what was the difference between half a dozen sorts of policies, and I am not much further advanced to-day? A.—In reply to that I would say people who are insuring now are getting pretty well educated, and they are commencing to inquire pretty closely what kind of policy they are getting, especially as to the question of rebates.

MR. HELLMUTH: During your evidence yesterday, you made it, I think, abundantly clear that no matter what the legislation or lack of legislation had been your company would have taken the course it did in regard to reserves independently? A.—Yes, just as in Great Britain where there is no special legislation they do it. I would say that.

Q.—Can you give me any explanation or reason why your company were such strenuous advocates of that legislation—you yourselves had decided to adopt a lower standard why the necessity of being very strong advocates as we understand you were, of the legislation of 1899? A.—I do not know that we were specially strong advocates, I know Mr. Ramsay when the question was put before him by Mr. Fitzgerald wrote two letters both advocating this very thing.

Q.—That is what I say; you did advocate this legislation? A.—The advocacy came through these official letters of Mr. Ramsay.

Q.—And you were rather, unless your literature belies the company, you were rather sorry that the legislation was not more drastic, that is that it did not require the change more rapidly, is not that so? A.—No, I think you will find on exhibit from the Insurance Department a document in which our company signed a request for some reasonable extension of time so that all companies could easily come within the period allowed.

Q.—Did you not say something about this extension being granted for the sake of the weaker companies? A.—I think so.

Q.—Who could not get into the position the Canada Life had already attained to? A.—Possibly.

Q.—And you thought and expressed yourselves, unless we are altogether mis-informed, and my recollection of the material in the Department warrants me, rather adhering to my view, you expressed yourselves as thinking that the time given was too long for the change? A.—I know of no expression of opinon in that direction.

Q.—Were not you in the employ of the company at that time? A.—Yes.

Q.—Did you not hear the discussion about the matter at that time, Mr. Sanderson? A.—Mr. Ramsay and I discussed it.

Q.—Did you not know that the advocacy was to have that legislation put through without giving, so far as your view was concerned, and some other Toronto companies too, without extending the time in the way it was, that the strong push for the extension of time came from the Montreal companies, from the Sun Life? A.—It is quite true—

Q.—Were not you aware—? A.—I am aware the Sun Life opposed the whole thing.

Q.—And when they could not get the whole loaf took the half in order to have the time extended within which to make the change, and that that was opposed by the Toronto delegation, or some of them: were not you aware of those facts? A.—I am pretty well aware of the facts, I do not know they are just as you set them out.

Q.—Please correct me, I do not want to state anything that is not accurate? A.—I will read what Mr. Ramsay says.

Q.—I want your recollections? A.—This will be the best evidence of my recollection.

Q.—Have you any independent of that, a matter of that importance, the changing of reserves, have you not independently of that a good recollection of the attitude that the Canada Life took in regard to that momentous question? A.—Yes, perhaps a better recollection than some who are asserting statements to the contrary.

Q.—Is your recollection that the Canada Life did with other companies urge that the change should be made at shorter dates and did the bill so provide that the change should be made at shorter dates than it actually was carried through eventually? A.—The bill as originally introduced allowed a period of 7 years, and we signed a request for an extension of the time.

Q.—To when? A.—I could not say off hand the exact time, but Mr. Ramsay signed a request for the extension of the time, and while we felt satified we could come within the time ourselves, in a reasonable time, we were anxious that all companies should have

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

a reasonable time within which to make the change.

Q.—You were advocates of the bill in the first place? A.—Mr. Ramsay unquestionably advocated in his official letters.

Q.—It was not for the purpose of bringing any legal pressure to bear upon your company, you advocated it because you were at perfect liberty to make the change before hand? A.—It was in the interests of the business generally.

Q.—Not in the interests of the Canada Life, because it could make the change? A.—In the interest of sound life insurance in Canada,

Q.—Life insurance in England is on a fairly sound basis? A.—Very sound.

Q.—And none of the companies there have thought the Imperial Parliament should pass legislation compelling reserves on any basis? A.—We are under a different system altogether here in Canada; the legal reserve system is established in Canada by statute, and as soon as the Government establishes that system it takes the responsibility to keep up a proper standard. The people lean back upon the Government when it does that, and the responsibility is upon the Government to keep that standard right. If there was no standard set up by the law then the onus is on the companies, as it is in England.

Q.—The Government had put the standard of 4½ per cent? A.—Yes, in 1877.

Q.—No company was in any way bankrupt in any shape or form that had a 4½ per cent. reserve in 1899, there was no bankrupt company that had its 4½ per cent. reserves, perfectly capable of meeting all claims? A.—It depends on what you call a bankrupt company.

Q.—It was sound? A.—Then that comes back again to what is solvency in life insurance.

Q.—They were earning enough money to pay all their claims with the rate of interest? A.—At that time; we were as a matter of fact earning in 1899 4.24 per cent., considerably less than the official rate of interest, and our company was investing money in securities at 3½, and a less rate of interest, and people were asking for money on mortgages at 4 per cent.

Q.—At that time the companies were all earning enough money to keep themselves safe on the 4½ per cent. basis, even if they were not able to pay profits? A.—If the rate of interest continued.

Q.—But the rate of interest went up? A.—In dealing with life insurance you cannot deal with the rate of interest as it appears next day or next year or the next five years from now, you must take a prospective over a period of years.

Q.—The Canada Life will be perfectly sound to-day if it was on a 4½ per cent. basis? A.—It would be actuarially solvent, yes.

Q.—Why could not you let the other companies each judge for itself what it wanted? A.—I do not know that we hindered them.

Q.—Would not the result be that if companies had continued on a 4½ per cent. basis, and you had gone down to 3½ and 3, they could have driven you out of the market with their lower premiums, would not that have been the possibility, was it not necessary for you to make the other companies come down or else they would have been able to undersell you in the market? A.—I don't think so.

Q.—Surely you can have a much lower premium if you take it at 4½ than if you take it at 3½? A.—We are selling to-day insurance with a premium on 3 per cent. basis; there are companies in Canada selling premiums much lower than that; we have a first-class company with good goods, and we can sell them, no matter what the premiums are.

Q.—You differ from your President, because he does not think a good company is any use at all for the gathering of business, it is all the push of the man who goes forward; he was asked by Mr. Langmuir whether he did not think the Canada Life with its millions ought to be in a position to write business as against a much inferior company without push, and he said no, it was the push that got the business? A.—The President is responsible to himself.

Q.—You do not agree with him, and that the man in the street who buys insurance practically never looks into the standing of a company until he gets in—I admit after he gets in he begins to look after it, but until he gets in he does not care a rap whether you have a million dollar capital or a dollar—is it not the agent who pulls the insurance? A.—Very largely; the reputation and high-standing of

the company will naturally drift the business towards the best company.

Q.—You do not think the desire to have the premium throughout more or less on a level has anything to do with the Canada Life's position in regard to the change, or legislative change in the reserves? A.—That is news to me.

Q.—You do not think it had? A.—No.

Q.—I ask you if you think there was any desire to have that change brought about so that all the companies would have to have their premiums much on the same basis? A.—No. I think Mr. Ramsay when he recommended that Government basis did so solely, as I know he would, only from sound life insurance principle, so that Canada might come up to the higher standard of life insurance.

Q.—Can you tell me at all how the mortality in Great Britain compares with the mortality in Canada? A.—Do you mean the mortality of life insurance company or the mortality of the country generally?

Q.—I mean the mortality of life insurance companies? A.—There have not been many individual mortality experiences published by British companies, and it is not easy to answer that question definitely; so far as the standard table goes it would go to show that the mortality in Canada is better than the standard considerably, but if you take—

Q.—That is the popular impression? A.—Yes, but if you take the high class companies in Great Britain which have selected their business with great care, which the Canada Life has done, you will find the mortality experience of those companies is very favorable.

Q.—Assume the same care is exercised by a company both in England and in Canada, is not the Canadian mortality more favorable? A.—That is the general impression, but I do not think that English actuaries would assent to that proposition.

Q.—Do you assert that? A.—Our own experience seems to trend in that direction.

Q.—What little you have done—I will not say that, I will say what great you have done in England of insurance— A.—We have no experience there to form any conclusion from, you cannot form a conclusion from two or three or four or five years.

Q.—Is it from your general experience? A.—Yes.

Q.—Is it not a fact that in the United States the mortality is greater than it is in Canada? A.—In the Southern States.

Q.—No, in the northern States, is it not a fact that one of the companies in the States only insure in the northern States—don't do business at all in the southern States? A.—Some of them do not do business in the south.

Q.—Have not some of those northern States' insurance companies invaded Canada? A.—Yes, to our misfortune.

Q.—Have they not published to their policyholders at home that one of the reasons for the invasion of Canada is that there is a better and more favorable mortality in Canada than in any country in the world, have you not ever seen any literature of that sort, not for Canadian eyes, but for American eyes? A.—I do not know that I have.

Q.—Is it not a fact that probably the mortality in Canada is more favorable than— A.—The mortality in Canada would be better than the United States as a whole, but whether the mortality in Canada is better than the mortality of the United States I would not venture to say.

Q.—I think the mortality in what is called British North America is more favorable mortality than any single State in the Union? A.—You do not go by the States, you might get that impression from reading mortality statistics as published by census officers and so on, but that is not a very reliable source to be guided from.

Q.—Whatever advantage there is I suppose is to Canada in that respect? A.—I do not think Canada would compare unfavorably.

Q.—Do you think that the Canadian policyholder is a gainer by your going into Great Britain and the United States where the mortality may be greater? A.—I have not said of course it is greater.

Q.—But if it be greater would not he be associated with those who would be a drag upon him rather than a help? A.—If that were true it would follow also that the Canadian policyholder going into a British company doing business in Canada would be at a disadvantage.

Q.—Why so, I do not say he is not; that is very good material for the Canadian agent to point out? A.—I should think the same argument would apply in this way, you might say a

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

company should not go into the Province of Quebec, because the mortality in Ontario is better than Quebec?

Q.—It might be if they could get enough business in Ontario, it is quite likely if that were so— A.—I think the mortality in the northern States will be as good or better than the mortality in Quebec.

Q.—But assume that to be so, it would be undoubtedly no advantage to the Canadian policyholder to have British or American confreres? A.—Unless there were some other compensatory advantages.

Q.—I notice in this interesting work, instructions to agents at paragraph 153, after speaking of the reserves, you say: "It is obvious from the foregoing statement that a company assuming a low rate of interest and consequently holding strong reserves has a decided advantage as to earning power over one on a less severe basis. It will be readily seen therefore that the Canada Life policyholder is in a very much more favorable position to receive good dividends than he would be were the company holding only the reserves considered sufficient by most companies. It is the difference between pretty good and the very best." Do you mean that to leave out any consideration in regard to premiums, are you dealing with an insurer there who pays the same premium? A.—Dealing with an insurer who has insured in the Canada Life as against an insurer in another company that has yet to pay the debt to make up its reserves.

Q.—Are you assuming you will have to pay the same premium for his insurance, is it any difference in premium? A.—No, it is the principle of high reserves.

Q.—Only the principle of higher reserves? A.—Yes.

Q.—I want to see how it is possible, assuming a low rate of interest, can give a decided advantage to earning power; it has nothing to do that the expenses will be less? A.—No.

Q.—Nothing to do that the mortality will be less? A.—It will be from the interest factor.

Q.—Simply assuming the low rate of interest? A.—Yes.

Q.—If that is so do you really agree with that, if it is only assuming the low rate of interest, that that is true, is it any advantage, because I think I can show it could not be possibly any advantage, if you leave out possible mortality, leave out any change in expenses, there could not be any advantage—I just ask you do you agree with it, if you do not agree with it I will not bother going through with it, but it struck me it was a little bit of special pleading when you came to take the figures and work them out? A.—We have changed the reserve basis, the debt is paid, those policies paying the same rate of premium in different companies; in the Canada Life, with the debt paid he will come out better than in the Company which has yet to pay the debt.

Q.—You do not mean then at all that he will be any better off if the Canada Life had remained at 4 than if it had gone to $3\frac{1}{2}$? A.—Yes, I do, I think in the long run—

Q.—I am speaking of a man who takes out a policy in your company, pays the same premium and has the same expense rate and the same mortality gains, it does not make a rap of difference to him whether you put your reserves on a 3 per cent. or 4 per cent. basis, does it? A.—It certainly does for the past, that is for the old policies.

Q.—I am asking of a man who comes in now, how can it make any difference if I come to you to-morrow and pay the same premium whether you are on a three per cent. or a four per cent. or a two per cent. basis? A.—That man certainly would not have to run the risk of paying up the debt in any other company, paying up the debt on other policies.

Q.—You speak as though there were some virtue, some extra earning power, because you have gone and put your company upon a 3 per cent. basis? A.—I think involved in that is the thought that we have set aside a sum of money against another company which has not.

Q.—You apply to a new policyholder, a man intending to insure in the Canada Life and you say to him in fact, if not in so many words, "You will do better with us now because we have got on a 3 per cent. basis, your money will earn more than if we were on a four," that is not so? A.—I would say the statement in the book had reference to what I just referred. I did not write the sentence.

Q.—If it does mean that he is any better off by reason of the change coming in to-day than he would be if you had remained at 4 it would not

37th day, June 7th, 1906.

(Canada Life, F. Sanderson, Ex'd.)

be true—if you have more of reserve to earn interest on out of the premium you have less of surplus to earn interest on? A.—Yes; a quinquennial division policy on a 3½ per cent. basis, you keep up a quinquennial surplus against a company which has a 3 per cent. reserve keeping its reserves up on a 3 per cent. basis—

Q.—I will just take an illustration, I thought you would have admitted that at once; if your contention is well founded then by bookkeeping you can make A's 3½ reserve policy earn more than A's 4 per cent. policy? A.—I was not putting it in that form.

Q.—Let the comparisons be tabulated thus: Canada Life, the same sum for both policies, $1,000, twenty payment life, thirty-five twenty-five, practically the same, twenty year accumulation profits, 3½ per cent., the death rate is the same for each? A.—Yes.

Q.—The expense is the same for each? A.—Yes.

Q.—There is the same amount paid in for each? A.—Yes.

Q.—In other words during the twenty years there is exactly the same in each policy? A.—You had in mind the twenty year policy.

Q.—Twenty year accumulation? A.—Yes.

Q.—There is exactly the same, outgo on each policy? A.—Yes.

Q.—Therefore there is exactly the same amount at the credit of each policy at every stage during the twenty years? A.—Yes.

Q.—That sum to the credit of each policy can be divided only into two parts, reserve and surplus? A.—Yes.

Q.—And if the reserve is increased the surplus is decreased? A.—I will admit that. You had in mind tontine policies, I had in mind quinquennial policies.

Q.—If the quinquennial policy does not take out the cash but leaves the money there, if they both do, the result will be just the same, you keep all his money, it all earns the same interest? A.—You cannot tell who is going to take cash and who is not.

Q.—I am assuming the man treats both policies alike, on the quinquennial basis the man leaves all his money there, of course if he takes his cash away you have the other man's cash so much more, but let them both leave all their money there there will be exactly the same result as in the tontine, only one will be in surplus and the other will be in reserve, the one's surplus will be that much bigger than the other's reserve? A.—I think that will follow. Might I add this fact, when a man takes bonus addition in connection with a quinquennial policy he buys so to speak with his cash profits a little paid up policy, and that is a non-participating policy, so practically he has two policies, the regular quinquennial policy and a little non-participating policy, so that I think the policy taken on the bonus addition would fall in the same category as the policy taken in cash, and therefore the quinquennial policy would benefit by the higher reserve basis.

Q.—That is because your non-participating policy would not carry any advantages, and the man on the 3 per cent. woull get a less amount than the man on the 4? A.—No, that little paid up policy is a class by itself—I claim the quinquennial policy will be in the same position as the man taking cash.

Q.—Do you think there should be anything in the system of book-keeping in the company which would show the amount of profit earned or portions of premiums returned with the rate of interest paid compounded through the years—is there anything at all in your system of book-keeping to show at present how much of the man's premium paid over and above the net premium is returned to him, and at what rate of interest? A.—There is no system I think in the company's book-keeping which would yield that result.

Q.—Don't you think it would be a very satisfactory thing if you could say to a man who was insuring, now, we can tell you that your premium has to be so much for the net premium, you have to pay so much for loading and the profit expenses, but you are likely with the rate of interest we are earning—you do give estimates—to get that excess amount returned or a portion of it returned, carrying your life—we do not expect you to do too much altogether—a portion of it returned at such and such a rate of interest; would not that be much better? A.—That would be an estimate.

Q.—Would it not be a much better kind of estimate than the class of estimate which you make? A.—Possibly it would, but I think it would be better still to eliminate even that.

Q.—I do not know about that, we all like to have some guess at what may come back; could not you say

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

whether they would get the profit loading back at all events with whatever rate of interest you might earn? A.—What do you mean by the profit loading?

Q.—I mean the portion of the loading which is intended for profits? A. —The major source of profit is not in the loading.

Q.—But it is as broad as it is long after all, because you can base how much of the gain of the company you have to take for the loading? A.—I would say it was worth considerable.

Q.—I would like to have your view, I do not suppose it will be at all favorable, but I am prepared to accept an unfavorable view as to the question, what I have perhaps very improperly termed indemnity insurance? A.—Like all other actuaries I will take exception to the use of the word indemnity, but we will not quarrel about that.

Q.—You understand what I mean? A.—Yes, a life insurance company is doing business among human beings, not among ethereal spirits, and therefore we have to take men as they are. If you would eliminate the investment feature altogether what would be the result? You go to a young man and you ask him to insure his life on this non-investment plan. His reply is first, "I have to die to win, and second I have no family." You can not get near him, he won't insure. You do not get him, at the very time of life when he should insure. But when you go to him on a proposition of which the basis is indemnity and a little touch of investment the chances are you will get him, and the net result will be his widow will profit by that in years to come; so that I claim you have practice versus Theory in that.

Q.—You might much more rapidly catch him if you would go with a gold mine? A.—You would not be giving him what is sound. Let me refer to a couple of historical events. The Australian Mutual Provident Society, we all admit it is a first class company, in its prospectus which I was showing Mr. Shepley this morning says this: "One of the most prominent features in these new tables is the investment element, as it is quite evident to the board, in touch as it is with the feelings of the community, that an investment guaranteed by the ample resources and proved stability of the Australian Mutual Provident Society will be eagerly sought for by those whose first consideration is safety. As the majority of the benefits offered will participate in the profits of the Society, they present the additional attraction of a remunerative investment." This is in the publication of the Insurance Institute of New Zealand; the actuary of the New Zealand Insurance Department says this ——

Q.—Is that my favorite? A.—Yes; this is by the actuary of the department, a paper written by him: "Endowment insurances in their original form have multiplied largely during recent years, and they are by far the most popular kind of insurance in this Colony. When made to mature from fifty-five to sixty-five years of age I think they afford about as good a way as any of making a reasonable family provision, together with a nest egg for oneself when both are most required." Then he says: "It is said that one insurance office would not adopt this policy for many years, on the ground that the public, if they wanted it, could already procure from that office a term insurance and a pure endowment. However it seems to me that the public did not want it, and in the convenient form in which it is now presented, and the office in question learnt by experience that what the public really wants it will have, so that eventually it was compelled by force of circumstances to fall into line with its competitors?

Q.—Don't you think if you did not offer insurance at all but investment, and had agents to whom you paid the same amount that you paid now you could sell a great deal more than you can even sell with the insurance feature—is not the gambling instinct very prevalent? A.—We will put it this way, Suppose you and I both go out to insure two men; I have my policy with the investment feature in it, you have simply your indemnity, and we canvass these two men, both young men with no family say, in nine cases out of ten you will miss your man.

Q.—I would put it higher? A.—But still in ten years after those two men may die, I take good gold to the widow, you take theory.

Q.—That sounds almost as if you had graduated as an agent? A.—I never did.

Q.—However you believe in what you call euphoniously the investment?

37th day, June 7th, 1906.

(Canada Life, F. Sanderson, Ex'd.)

A.—No, I would not say that, because in the Canada Life Assurance Company we have really always laid the emphasis on the other side, and if you take the Blue Book you will see that the bulk of our insurance is on the investment plan, not on the endowment plan.

Q.—I thought you told me that the semi-tontine occupied nearly 50 per cent.? A.—I am speaking of endowment insurance, that may be either quinquennial or tontine.

Q.—You have an investment feature in it, and ninety per cent. of your insurance has the investment feature? A.—Yes, and in nine cases out of ten you would miss the young man when I would get him.

Q.—The investment feature is there? A.—It is in both, it is in the profit idea.

MR. SHEPLEY: This question of excess of first cost has been dealt with in a way by two of the actuaries who have appeared in connection with other companies during this investigation, and I want to get your view in regard to the two methods that have been suggested of getting rid of or of economizing that evil, one is the adoption in the earlier period of the policy where the cost is exercising its influence, the adoption of the Select and Ultimate Table? A.—Yes.

Q.—What would you say was your view about that? A.—Do you want my view in connection with the question of Select and Ultimate?

Q.—With respect to using the Select and Ultimate Table for the purpose of fixing smaller reserves during the earlier years of the policy, thus letting loose a greater proportion of the premium to meet those expenses? A.—It seems easiest for me, and perhaps easiest for a layman, to get the point of view from the historical aspect of it, I can put it easier that way. This idea of holding low reserves in the earlier years of a policy is not a new idea. As far back as 1863 Dr. Zilmer, President of the German Insurance Institute, read a paper in which he advocated this very thing. That is forty odd years ago; but while he suggested that and advocated it strongly it did not obtain a foothold in Germany. Later on in 1870 the celebrated British actuary, Dr. Sprague, in a paper since become classic, in a somewhat different form advocated the same idea, and he has been assiduously pushing that idea since, partly, I think, from the reason that the company with which he was connected required some such assistance along that direction, it was weak in its reserves and he took hold of it. A few years later, in 1878, Mr. James Shorely read a paper before the Institute of Actuaries in which he, in a still more modified form, advocated it running over a period of ten years, starting with low reserve and working up to the regular reserve in ten years. This idea of Dr. Sprague's, after lying dormant for a time, found its way over into New York State, when the consulting actuary there, Mr. W. D. Whiting, about ten years ago, took it up and exploited it and applied it not only on what Dr. Sprague intended it, on the whole life policy, but on the limited payment life and endowment, and it has got a foothold there, and is in use in the United States among perhaps half the companies, I mean especially the smaller companies, not among the old and established ones. The thought of Dr. Sprague has been abused by those companies. Then this Select and Ultimate Table has come in subsequent to that, and if I were speaking from the point of view of an American I would say the Select and Ultimate is a sort of stop-gap between the net premium system and this preliminary term idea.

Q.—It is a sort of midway between? A.—Yes, so that from the point of view of the American there is perhaps something to be said, but from the point of view of Canadians and Britishers it is a question whether it would be wise or not.

Q.—The evil, because I think we all agree it is an evil, the evil of excessive first cost is a thing that has to be cured by the adoption of some means, and if this Select and Ultimate method of computing the reserve will relieve in Canada it will relieve here, and in England too, if the cost is excessive? A.—I would quote Mr. Emery McClintock at the International Congress of Actuaries at New York. I heard him myself, and the statement is in the transactions of the Society; he said that this system would not be adopted by any successful company, and I think as far as my information goes it is not likely to be adopted by the established companies in the United States.

Q.—The successful company will be the company that carries on its business economically, ad you do not want to cure the evil where it does not exist? A.—No; well I doubt if any of

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

the old established companies will adopt it.

Q—That is, they won't admit they are extravagant in the matter of first year business? A.—Possibly; but the net premium system as we have it in Canada, and as it has been in force in Great Britain, is a sword of Damocles over the management, and I think we should not depart from that system without very serious consideration. I will agree with you we ought to lessen the cost of first year business.

Q. If you are going to maintain this extreme cost we must find or look for some means of relieving the tension? A.—I will say generally in respect to that that the true principle would be proper publicity, and I think the enforced reduction of expense by legislation would be unfortunate, although if it can not be reduced in any other way well and good. The British idea would be to bring it about by publicity and not by compulsion. A company like an individual I do not think can rise to its highest altitude by living up to compulsion; better to live by ideals and principles than by the law of compulsion, and so I would be disposed to try the further publicity first, and if that won't work then necessarily fall back on some compulsion or law.

Q.—I gather upon the whole you are not favorably impressed with the idea of relieving the situation by this device of the adoption of the Select and Ultimate Tables? A.—I would not object to some system like that for young companies. I think a net premium valuation system presses very hard upon a young company, and that is where some such system as that might come into play.

Q.—It pressed pretty hard upon your company, too? A.—Yes, and as I say this net premium system is a sword of Damocles over the head of the management; but for the young company there is something to be said.

Q.—Another actuary made a different suggestion; I should tell you it was made in the case of industrial insurance, but I am not sure it won't be equally applicable to the ordinary insurance. You fix your premium with reference to age at the next birthday? A.—Yes.

Q.—And this gentleman stated that that being so you could average the time as six monhs before the man came under the premium rate fixed for the age next birthday, and then he said for that six months you might omit reserve altogether; have you ever thought of that? A.—I think the loading is the proper factor to work upon; the expense is not naturally a function of mortality, and that is where I would be disposed———

Q.—You would commence at the loading? A.—Yes, and I would have all companies show what is the regular net premium reserve, and if any relief is to be given for young companies set it in below that, let them take off that amount so that every one can see what the true liability would be.

Q.—In other words you would adopt what you told me before was the ideal condition, you would adopt the plan of having an adequate loading to pay the expenses? A.—Yes. There is a consideration worth mentioning in connection with this system with regard to the point of view with reassurance; take a company from the United States doing business in Canada, if the reserves are let down on this system, and the company goes into liquidation the question is what is the responsibility of the government on the question? There should be a reserve there to enable that company to be re-insured in another company, and if the reserves are let down to a low basis a first class company might not wish to take it over.

Q.—Of course the suggestion that the actuary made would only be feasible here if the law permitted the reserve to be so established. Then you would have a re-insurance fund fixed with reference to common practice? A.—Yes, but our British companies, or even first class Canadian companies, would not be likely to adopt it, and they would not want to take over a company which was on that lower standard.

Q.—I suppose that would depend on whether or not it was found to establish and maintain an adequate reserve? A.—Yes.

Q.—And the contention of the actuary I am speaking of was that the reserve would be adequate? A.— That is a question. I have a letter here from a very eminent British actuary, touching on this whole question of expense and new business.

Q.—I would be very glad to have it? A.—The name of Mr. George King, among actuaries, is known the world over. He says: "We do not favor the lightening of reserves on account of the cost of procuring new business, and there is scarcely a British company that makes any allowance on

37th day, June 7th, 1906. (Canada Life, F. Sanderson, Ex'd.)

this account. On the contrary, British companies try to pile up reserves to the utmost possible extent, and you will find that many of them make net premium valuations at 2½ per cent. interest, or even at lower rates, without making any allowance for new business. Were we to make such allowance it would reduce the estimate of liability but we look upon a full estimate of liability as providing a sort of reserve fund which we desire to make. Thus all our companies with, as I said, one or two unimportant exceptions, make net premium valuations. This is the case even where the company transacts a large new business, and we do not pay much attention to the allegation that the older policyholders are injuriously affected. The reserve is made as much for them as for others, and they get the benefit of it, and, as a matter of fact, their bonuses in the end are not reduced by the keeping of full reserves. On the contrary, one object of keeping full reserves is to sustain the bonuses for the old policyholders. If such a course were not followed the bonuses for old policyholders must fall. In this country it is usual to measure the bonuses by the reversionary addition to the policy, and, seeing that the value of the uniform reversionary addition increases with the increasing age of the life, we cannot divide the whole of the early profits of a company if we wish to maintain the reversionary bonuses. Therefore, we prepare for the future by making full reserves at low rates of interest so as to maintain our bonuses." Then he goes on to say that in connection with a young company he would make some allowance for the cost of getting business.

Q.—At the expense of the reserve? A.—Yes.

Q.—Then you have adopted Mr. King's opinion? A.—I am disposed to agree largely with that point of view.

Q.—Now you told me yesterday that in your view a normal amount of new business would be say, half a million dollars? A.—I do not know that I have made myself quite clear on that point. It might be half a million dollars a year; one year it might be less and another more. It might be a million the next year. I would be governed by the economic conditions at the time.

Q.—In the Canada Life has there ever been any method adopted of fixing, by some principle, the amount of new business which it might be profitable to do? A.—I think not.

Q.—Practically the Canada Life has flung itself upon the current of public competition? A.—Yes, the companies in this country have not got to the point they have in the States, of writing such enormous business as to be possibly a public menace and, therefore, there is not the same necessity for putting a check upon the amount of new business. I would sooner see it done by sound principles than by compulsion.

Q.—You have told me what you would like to see about that. At all events there has been no attempt to lay down a principle for the guidance of your company as to what amount of new business it is profitable to do? A.—It has not been definitely set out. It has been discussed.

Q.—Could a criterion be formulated? A.—It is exceedingly difficult. In the practical working out of a company that would be an exceedingly difficult thing to do. Companies are situated so differently that you cannot treat them all alike.

Q.—Can a criterion be laid down having regard to the age and volume of business of a company; will those be elements or factors that will enter into it? A.—Those would be elements.

Q.—What other elements would you suggest? A.—The conditions of the country at the time. You cannot tell how much business you ought to write. If the current is going your way you might write more business than if the current was setting against you.

Q.—You are aware of what was done in the State of New York with regard to that? A.—Yes, a limitation upon the amount of new business. I think that was due to the very large size of the large quanpanies. We have not got to that stage in this country yet.

Q.—You would not think the companies in this country have come to the stage at which that sort of legislation would be desirable? A.—I think so. I think that could safely be left to future legislation.

Q.—Don't you think when we find such a state of facts in connection with a company of such strength as the Canada Life, that the time has come for some remedy in respect of that excessive cost. A.—I am very hopeful that the publicity which the

Commission gives to all these things will in itself be largely a remedy.

MR. KENT: Will it have the effect of reducing the commission? A.—I think it will, especially if the Commission succeeds in getting a proper rebate law put on the Dominion books in the form of some amendment or addition to the Criminal Code touching both policyholder and agent.

MR. SHEPLEY: Do you think it desirable that in some way a proper and a workable limitation should be put upon the new business? I do not ask you to fix the limit, I do not suggest a limit, but do you think it is proper that there should be a limit judiciously and logically fixed? A. —I think the whole principle of legislation as carried out in New York is wrong. The whole underlying principle.

Q.—I am not speaking now of legislation exclusively at all, I am speaking of arriving, either by consent among the companies or by individual action on the part of each, or by legislation, at some fixed and workable, logical and judicious principle limiting the volume of new business that is to be written. A.—I think it should certainly be thoroughly discussed and considered, but whether you can get a hard and fast rule that will cover the cost is another question.

Q.—You do not know whether a rule could be laid down which would be elastic enough to allow for economic conditions? A.—That is practically what I mean to say.

MR. SHEPLEY: I would just as soon not take up the cases now, if it is agreeable to your honor. I do not think I shall keep Mr. Sanderson very long in the morning.

(At 4.30 p.m., Thursday, 7th June, adjourned to 10.30 a.m. on Friday, 8th June.)

THIRTY-EIGHTH DAY.

MORNING SESSION.

Toronto, Friday, June 8th, 1906.

—Examination of Mr. Sanderson continued:

MR. SHEPLEY: I put in the copy, which has been prepared, of the Deed of Settlement of the Canada Life. (Marked as Exhibit 215.)

Q.—I think you have verified this; this is a statement of amount of insurance issued in 1904, amount of insurance issued 1904 not taken in that year, then the same as to 1903, the amount of insurance lapsed in 1904. and issued in 1904 and lapsed in 1905? A.—That is correct. (Statement filed as Exhibit 216.)

Q.—I want to ask you to give me an estimate of the volume of insurance in the Canada Life written on the deferred dividend plan? A.—I think Mr. Hellmuth asked that question yesterday, and I promised to get the information. I have not got it yet. I will try and get that. I might say in general terms this, that in recent years, practically in the last four or five years, the bulk of the business has been upon the deferred dividend system, and I ought further at this point to say that the large cost of new business is entailed in getting that business, and that that large cost is charged upon the year of issue in which it is obtained, so that the large cost is not thrown upon the old policy-holders, but upon this business as it comes in year by year.

Q.—That is ultimately? A.—Yes.

Q.—You have to find the money to do it in the first place? A.—Yes, but it comes out of the years of issue.

Q.—I think it is in evidence that your accumulated surplus over capital is $393,000 odd? A.—Yes.

Q.—Take, for instance, the case of policy number 52,374, the Plummer policy; that is a case in which the cash value when the policy got into default was $135; it got into default on the 3rd February, 1901; on the 27th February, 1902, apparently a letter had been written to you with regard to the policy to which the Secretary sent an answer saying the policy had lapsed; do you verify that? A.—Yes, that is correct.

Q.—Had any notification, are you aware, been sent to Mr. Plummer advising him that he would have to make his application within a specified time, was it your custom to send such notices? A.—Yes, sir; on these old policies we do this, we give them 13 months in which to revive their policy or take a surrender value, and prior to the expiration of the 13 months we send them what we call a final notice advising them.

Q.—Have you a form of that here? A.—I think one was supplied to the Commission. We will have it looked

38th day, June 8th, 1906.

Canada Life. (F. Sanderson, Ex'd.)

up. I might say further very few of these old policies will come under that category; under the non-forfeiture scheme that is now in force it applies.

Q.—This only applies to policyholders before you adopted the non-forfeiture scheme? A.—Yes.

Q.—This is the notice? A.—Yes, carefully sent out every year to all policies which could be cancelled, advising them they must take action to revive their policy within the expiration of 13 months.

Q.—This is the notice? A.—Yes.

—Mr. Shepley reads notice, which is filed as Exhibit 217.

Q.—It would have been a very convenient thing, I venture, to submit to you, for you to have said you would be entitled to a surrender value of so much if you choose to take that, or you would be entitled to a paid-up policy of so much if you chose to take that? A.—I quite think it would; that is really a remnant of an old practice that has come down the years, and I think if I were doing it myself I would follow out the suggestion you have made.

Q.—Have you refreshed your recollection on the Keenan case, number 46,643; that was a policy for $5,000, ordinary life, taken out in 1889 by a man aged 65, the annual premium being $449.50? A.—This of course was a very old policyholder. I do not know what his complaint is.

Q.—He had paid in premiums altogether $6,752.90? A.—Yes.

Q.—That is a policy for $5,000; in April of this year you offered him a cash surrender value of $2,049? A.—Yes, that will always happen in every company where a man takes out insurance at a very old age, the cost of insurance at these old ages is very high, the current cost of mortality, and it will always happen that in a case like that if a man asks for cash surrender value——

Q.—I am not suggesting that this is not in strict accordance with the terms of the contract—your surrender values as we have seen them exhibited before us, are arrived at in a certain way, you have told us about that? A.—Yes.

Q.—I don't know that you yourself think it a very liberal method of computing surrender values? A.—If you have read the minutes of the Board you will see a letter amongst those minutes from myself in which a couple of years ago I asked the Board to modify the old system of surrender values which was in force in the company for very many years. The practice was to take off a certain uniform percentage off the reserve, and I suggested to the Board that they ought to liberalize that for the old policyhoders.

Q.—That is what I have in my mind when I suggested you probably yourself did not consider the surrender values sufficiently liberal? A.—No, I suggested they should be liberalized for the old policyholders, and that was done voluntarily.

Q.—Take number 57,334, a policy on the life of Mr. Cockburn for $4,000; he also was an old man. What I want particularly explained about that is the fact that there are three surrender values within a few months suggested, the first being $1,411, 15th December, 1904; the second being $1,708, 25th April, 1905; and the third being $2,000, 4th May, 1905? A.—I remember that case. The son came to see me and made the complaint that this policy had been taken out on the life of his father by an agent of the Canada Life, and he said that this agent had used undue pressure or misrepresentation in getting the policy, and—his father was old, he could not keep up the premium—and he thought the company ought to give some consideration to the matter. It is very hard to establish what is misrepresentation and what is not, and in the first case we quoted them the regular surrender value $1,411. Later on we quoted him a higher cash surrender value.

Q.—How did you come to offer him $1,708 as against $1,411, was there a dividend declared in the meantime? A.—I think that would be due to the change of the valuation basis from 4 per cent.——

Q.—It made a higher reserve? A.—Yes; later on we offered him $2,000, the Government reserve at that time being $2,060; we treated him very liberally.

Q.—That was perhaps for the purpose of effecting a settlement? A.—Yes. We took into consideration that possibly there was some misrepresentation. We treated him generously I think, and we are proud of the case.

Q.—The only other case I wanted to ask you about is the case of LeClare, number 33,192, for $1,500. That man seems to have paid 18 premiums, and he made default in 1901; he did not apply in respect of a surrender value till 1905, four years af-

38th day, June 8th, 1906. Canada Life. (F. Sanderson, Ex'd.)

terwards? A.—Four years, after the 13 months had long since expired, the surrender value of the policy fell into the company, and according to its terms was distributed at the division of the profits to other policyholders.

Q.—I think the surrender value there was $326? A.—Yes. That is another sample of the working of the old practice which prevailed in the company years ago, by which it was understood that any profits from that source would go to the other policyholders and become divided at each quinquennial period.

MR. SHEPLEY: Mr. Watt has asked me to make a statement in view of the fact that it has been quite public property that a great many complaints have been made; of course all the individual complaints that have been made have been very fully examined into, and it is not necessary in my view to spread the matters upon the record, but just to take two or three types. It should not be supposed they have not all been examined into with great care.

MR. HELLMUTH: I asked for some statements, Mr. Sanderson, of which no doubt if you have not got a note you will be able to find from the evidence when it is printed, I mean a statement to be put in? A. —Yes.

Q.—I omitted to ask you in reference to some of the enquiries made by me for these statements which I would like to have you make; you can gather them again from the evidence? A. —Yes.

Q.—I want a statement showing the actual profits allotted or paid on quinquennial plan on policies issued in 1900 and 1901? A.—Yes.

Q.—I would suggest you take the two ages 25 and 35, and you give it to me on the whole life, 15 and 20 payment life, and on the endowment at 10, 15, 20 and 25 pear periods? A.—I would be very glad to do it.

Q.—The other statement I would like to have is in reference to the semi-tontine or deferred dividend policies; I would like a statement showing when the compay began to write deferred dividend policies; you may have given some evidence of it, but I have not it in concrete form? A.— 1888.

Q.—You can put that in. Secondly the amount of deferred dividends and quinquennial business written each year from that date up to December, 1905? A.—Yes.

Q.—Indicating if you can what amount of each is persistent; I fancy that will follow if you show what is written? A.—Yes.

Q.—And then the corollary to that would be what amount of business in force on December 31st, 1905, was quinquennial and what deferred dividend? A.—Yes.

Q.—You thought about 30 or 40 per cent., but you could not give it to me exactly? A.—We will be pleased to give you the information. Before I leave the stand might I make a short explanation; I would like to supplement my statement in reference to one point; we were speaking of the share which the shareholders took in strengthening the reserves. I omitted to make it clear I think. The stock capital was one million dollars; on the basis of the Government standard of valuation, the policy reserves were $20,144,108; if the surplus at that point of time had been divided there would have been $2,565,198 to distribute on the Government basis. The shareholders would have been entitled to one-tenth of that, $256,519.80, and the policyholders to the balance, $2,308,678.20, so that the shareholders contributed $25.65 for every hundred dollars of their share capital for that purpose, while the policyholders contributed only $11.46 for every $100 of their reserve; in other words the shareholders contributed considerably more than twice the rate at which the policyholders contributed in proportion to their financial interest in that transaction. The assistant actuary is anxious that I should emphasize again the fact that our new business, nearly all tontine, that the weight of the expense is in that connection, and that the large expense involved in getting this new business is thrown against the years of issue, and does not come as a charge or embargo upon the old policyholders.

MR. SHEPLEY: As I have said in the case of other companies, subject to something further occurring we close the investigation into the affairs of the Canada Life.

I propose next, with Your Honors' permission, to take up the Imperial Life, and Mr. Tilley will take charge of that.

38th day, June 8th, 1906.

IMPERIAL LIFE ASSURANCE COMPANY.

Hon. S. H. Blake, K.C., and E. T. Malone, K.C., appeared for the Imperial Life

THOMAS BRADSHAW, sworn, examined by

MR. TILLEY: Q.—You are the Secretary of the Imperial Life Assurance Company? A.—I am.

Q.—And you are also actuary of the company? A.—Yes.

Q.—And you are, I think, a director and Vice-President? A.—Yes.

Q.—Have you any other offices besides these four in connection with the company? A.—No.

Q.—How long have you been associated with the Imperial Life? A.—1st January, 1898.

Q. The company having been incorporated in the year 1897? A.—Yes.

Q.—Prior to your connection with the Imperial Life what company were you associated with? A.—I entered the North American Life as a junior on the 2nd July, 1881; and resigned on December 31st, 1897. I held no official position in that company.

Q.—But you were there working in the actuarial department all the time? A.—Not specially.

Q.—What has been your actuarial education? A.—I am a fellow of the Institute of Actuaries of Great Britain by examination, and a fellow of the Actuarial Society of America not by examination; no examinations were held at that time.

Q.—How long have you held those degrees? A.—Fellow of the Institute of Actuaries, 1897, and of the Actuarial Society of America I think about 1895.

Q.—And for how long have you been giving your attention to actuarial work? A.—Since about 1890.

Q.—Then had you anything to do with the incorporation of the Imperial Life? A.—No.

Q.—At the time of its incorporation there was no arrangement with you? A.—No.

Q.—That you should become acquainted with it? A.—No.

Q.—Then you were not a party in any way to the drafting of the Act of Incorporation? A.—No.

Q.—At the time you joined the Imperial Life who was the person that was in active management of the company, taking the chief interest in it? A.—Mr. F. G. Cox was Managing Director.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—Who was the President? A.—Hon. Sir Oliver Mowat.

Q.—And he continued President of the company up to the time of his death, did he? A.—Yes.

Q.—After Sir Oliver Mowat's death who became President? A.—Mr. A. E. Ames.

Q.—And how long was he President? A.—A short time.

Q.—Can you give me the dates? A.—The minutes would indicate that.

Q.—For two or three months, about April, May and June, 1903? A.—Yes, I think about that time.

Q.—It was for a very short time? A.—Yes.

Q.—After Mr. Ames retired from the Presidency who became President? A.—Sir Mackenzie Bowell.

Q.—Then other than these three gentlemen who have been Presidents and yourself and Mr. Cox has any other person taken any active interest in the management and direction of the affairs of the company? A.—Yes. Mr. J. W. Flavelle in the early years.

Q.—Could you tell me during what period he took an active interest in it? A.—From the commencement of the company until I think about 1900 or 1901.

Q.—I think the minutes will show he was last a director in the year 1900? A.—Yes.

Q.—And it would be when he ceased to be a director that I suppose he ceased to take an active interest in the company? A.—Ceased all connection with it in that connection.

Q.—What official position did he hold? A.—First Vice-President.

Q.—Are there any other persons than the ones you have mentioned that have been taking any personal active interest in the management of the affairs of the company? A.—Senator Cox at the commencement of the company took a very active part in it; he was a director of the company.

Q.—I noticed that during the first year, I think? A.—The first three months.

Q.—The unexpired portion of the year in which the company was incorporated? A.—Yes.

Q.—He was a director, and during that time you say he took a personal interest in the matters? A.—Yes, a personal active interest.

Q.—Did that interest cease after he ceased to be a director? A.—He has always taken a friendly interest in the company.

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

Q.—But not the same interest in detail, do you mean, as he did during that time? A.—No, when he resigned from the directorship he just took the interest in it that a warm friend of the company would take.

Q.—Has that continued from that time until now? A.—Yes.

Q.—Are there any other persons who have taken a personal interest in the company? A.—You have mentioned Hon. Sir Mackenzie Bowell, and then one of the Vice-Presidents, Hon. S. C. Wood.

Q.—Would you indicate just in what way he has been prominently associated with the company? A.—Since his election as Vice-President he has given daily personal attention to many matters affecting the company.

Q.—Did he become a Vice-President when Mr. Flavelle resigned? A.—No, at the time Sir Mackenzie Bowell was elected President.

Q.—That would be in 1903? A.—Yes.

Q.—A year or two after Mr. Flavelle left the active interest in the company? A.—Yes.

Q.—Is it fair to say that he took somewhat the same position with regard to the company that Mr. Flavelle had occupied during his time? A.—Somewhat similar.

Q.—Have we all the names now of the persons who have been actively engaged in the company's affairs? A.—Yes, I think you have.

Q.—What have been your duties since you have been associated with the company? A.—Well, duties pertaining to the work of a secretary and an actuary of a life company.

Q.—I think you have not been secretary all the time you have been actuary? A.—Yes, all the time.

Q.—My recollection was somewhat different? A.—No, I was appointed secretary and actuary when I joined the company.

Q.—At the same time? A.—Yes.

Q.—Probaby I was thinking of your becoming a Vice-President, that was a subsequent matter? A.—Yes.

Q.—What do your duties as actuary involve? A.—The calculation of premiums, reserves, general oversight of the actuarial work of the company. In that I am assisted by Mr. G. C. Moore, Assistant Actuary.

Q.—What actuarial staff have you? A.—Five.

Q.—Is that large or small by comparison with other companies in Ontario? A.—I think it is large.

Q.—I notice by the minutes that apparently encouragement is given to members of your actuarial staff in their studies as to passing examinations and so on? A.—Yes, we have done everything in our power to encourage young men to take up the examination of the British Institute of Actuaries and the Actuarial Society of America, and upon their passing we give them a slight reward.

Q.—Some honorarium of some kind? A.—Yes.

Q.—Some small, reasonable amount? A.—Yes, the reason for that is we think those who are trained in the actuarial part of life assurance make better assistants than those who have not that training.

Q.—It is a settled policy of your company? A.—Yes, you may say it is a settled policy.

Q.—A considered policy? A.—Yes.

Q.—And a policy that does not exist at any rate to so great an extent in other companies? A.—I am not acquainted with that condition in other companies, and therefore I cannot speak definitely in respect to it.

Q.—I think you would have a fairly good idea, I want to find out as well as I can the general position of companies in Canada with regard to that matter; it may be of some importance to the Commissioners? A.—I think the companies who have in charge of the actuarial part of the business trained actuaries encourage such a system as we have in vogue. I might mention names, but I do not suppose that is necessary.

Q.—I will not ask that? A.—I might say in the office at the present time we have three Associates of the Institute of Actuaries by examination.

Q.—What does that mean? A.—The Institute of Actuaries of Great Britain hold examinations in this country once a year, and these examinations embrace four parts; upon the student completing the first two parts he is given the degree of Associate of the Institute, and upon completing the four examinations he receives the degree of Fellow of the Institute. These examination papers are sent out from Great Britain under seal to a supervisor in this country. The answers are put in envelopes sealed, and returned to London for examination by the Examiners there, and the students in this country have to pass the same examination in every respect as the students in Great Britain.

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

Q.—When you speak of these Associates in your office, they are young men who have gone through a certain portion of the course? A.—Yes.

Q.—And have not yet completed their actuarial studies? A.—Not completed.

Q.—Not for that degree? A.—No.

Q.—Then do you regard it as being essential to the proper carrying on of the business of a life insurance company that there should be a well-equipped staff or a competent actuary if the business of a company is small? A.—I do.

Q.—Does that apply to a company that is just beginning, or can it get along for a time without an actuary? A.—More at the commencement I think than almost at any other period.

Q.—Will you tell me why that is the case? A.—At the commencement the rates of premiums are determined, and that is the consideration for the contract, one of the considerations; the surrender values are also determined, the method of surplus distribution is determined; those are matters which clearly belong to the actuary to take up.

Q.—I suppose the division of surplus might not arise for a few years in a young company? A.—No, but then it is well to look ahead.

Q.—Are not premiums fixed by competition more than by actuaries to-day? A.—No, I would not say that.

Q.—They are to some extent possibly fixed by the Managers' Association, are they? A.—No, a number of actuaries met in 1900, I think it was, and determined upon what they considered to be a fair and equitable premium——

Q.—You mean actuaries of Ontario Companies? A.—Yes. There had previously been a great deal of needless competition amongst companies, and there was a desire to eliminate that if possible. The rates were not, on the whole, materially increased, only increased sufficient to comply with the new provision of the Insurance Act.

Q.—That is something that came about possibly partly as the result of the legislation about that time, was it, and partly from the condition of the trade, so to speak? A.—Yes.

Q.—Was that something that transpired through the Life Managers' Association; I don't think that the Life Managers' Association had anything to do with it although the officers were members of the Life Managers' Association; I don't think there is any record in the proceedings of the Association in respect of those premiums.

Q.—I was going to ask you whether there was anything in the minutes of the Life Managers' Association that would set that out? A.—Not that I know of.

Q.—Was any agreement entered into at the time, or any understanding that was reduced to a formal character by companies or their representatives? A.—No, I think this was the way of it: a number of actuaries and managers met and considered the question of premium rates in the light of the new legislation, and in the light of the conditions of the business. They agreed amongst themselves in respect of the fair premium to charge, and no company was compelled to adopt those premiums, it was a voluntary matter.

Q.—There was no penalty put on a company that violated them? A.—No.

Q.—And no method of enforcing it as against any particular company? or the officers of any particular company? A.—No, there was no binding agreement.

Q.—It was an attempt to come to a decision as to what was a fair and proper premium? A.—Yes.

Q.—Has any modification of that been arranged since? A.—I understand that all the companies that agreed to adopt these rates verbally have maintained these rates excepting one.

Q.—Not the Imperial? A.—No.

Q.—Then does that mean that the rates of those companies are uniform? A.—Yes, on certain plans of insurance.

Q.—Not on all plans? A.—No.

Q.—Why would any distinction be made in that regard? A.—At that time the premiums on certain plans of insurance only were considered.

Q.—Would you indicate what particular plans? A.—Whole life, limited life and endowment assurance plans with profits.

Q.—Were the rates applicable to policies without profits dealt with at all? A.—No, not at that time.

Q.—At any other time have they been? A.—Yes, that is a matter that was considered by the Association.

Q.—Now you are speaking of the Life Managers' Association? A.—Yes.

Q.—That will be in the minute books of the Life Managers? A.—Yes.

Q.—I will not follow that up at the present time, because we will be asking some questions about the Life Managers' Association separately; what companies were a party to the

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

verbal understanding that was come to about these participating policies? A.—The officers, some of them were not able to bind their companies at the time these rates were inaugurated and one of the managers present, although believing that the rates were fair rates, was not able to carry the matter through his Board. The officers that agreed as far as I can recollect now are the Canada Life, North American Life, Manufacturers' Life, Sun Life, Royal Victoria, Federal, Confederation, Imperial, and I think the Northern Life and the London Life; there may be one or two others.

Q.—That arrangement would embrace all the larger Canadian companies? A.—Yes.

Q.—Have you had any discussion outside of the Life Managers' Association about rates and so on other than what you have indicated in a general way? A.—None, excepting amongst actuaries as a matter of interest.

Q.—I can quite understand there would be discussion from time to time between actuaries about insurance business, but I mean to say where any arrangement or agreement has been come to which would apply to companies generally? A.—No.

Q.—Besides your actuarial duties you are secretary? A.—Yes.

Q.—And what does that involve besides the recording of minutes, anything? A.—General correspondence, and attention to ordinary matters as they come up.

Q.—Does it bring you in touch with the transactions that are passing through the office? A.—A good deal.

Q.—Does that apply to the strictly insurance work and to the investment of funds, both? A.—In a small company the duties of the officers overlap one another a good deal as you will readily understand, and one may take up this to-day and another take up something else to-morrow, depending of course upon what time he has to perform his work; there is no strict division of work.

Q.—That would apply particularly to a younger company? A.—Yes.

Q.—And where the work is not put into departments probably as much as in a large company? A.—Yes.

Q.—Is it right to assume you know all the transactions of the Imperial Life from the time it was incorporated to this time as well as any person we could get from the office? A.—Yes, I think that is the case.

Q.—We can start with that assumption? A.—Yes.

Q.—That in all matters, both as to investment and as to the insurance work, that you are able to speak as fully as any person else would be? A.—I think so.

Q.—I will put in the pamphlet you have supplied to us setting out the charter or Act of Incorporation followed by by-laws of the company. The original incorporators were John Hoskin, Hon. Samuel Casey Wood, Hugh Nichol Baird, Henry O'Hara, Joseph Wesley Flavelle and Hon. William Harty? A.—Yes.

Q.—Senator George A. Cox was not one of the incorporators so far as the public were concerned? A.—No.

Q.—Mr. Flavelle, I suppose, of those gentlemen mentioned was the person who had charge of the matter? A.—He was the active spirit.

Q.—I suppose that he and Senator Cox at that time were acting together? A.—I presume so.

Q.—That is this was not a case where Mr. Cox came in and decided to become a person prominently interested in the company after the idea of forming it had been conceived? A.—No, it originated with him.

Q.—He evolved the whole idea? A.—One of the originators, anyway.

Q.—Then it gives the corporate name and the powers, being the usual powers of an insurance company. The capital stock of the company shall be one million dollars, divided into shares of $100 each. Then subsection 2 of clause 3 provides for an increase of the capital stock after the whole has been subscribed and $500,000 paid in in cash? A.—Yes.

Q.—The increase to amount to a sum not exceeding two million dollars, and there is a provision whereby the increase must first be submitted to and confirmed by a majority in number and amount of the shareholders at an annual general meeting of the company or at a special meeting of the shareholders duly called for that purpose; has any increase of the capital stock ever taken place? A.—No.

Q.—So that the stock remains at a million dollars? A.—Yes.

Q.—Has any discussion as to the advisability of increasing the stock ever taken place, amongst those in the control of the company? A.—Never.

Q.—Is it a thing that you consider necessary at the present time? A.—No.

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—Not for the purpose of meeting the increased reserve required by the Act or for any other purpose? A.—No.

Q.—I suppose that your company, starting as it did about the time that the Act was amended as to the reserve would not be handicapped to the extent the other companies would in putting up the reserve for old policies? A.—No, and moreover, we fixed our premiums very shortly after we commenced in accordance with the new legislation.

Q.—I rather gathered that; that you anticipated that in the early life of the company? A.—Yes.

Q.—Then the Act provides for provisional directors and the first meeting of shareholders. Sub-section 2 of section 5 provides: "No person shall be a director unless he holds in his own name and for his own use at least 50 shares of the capital stock of the company, and has paid all calls due thereon and all liabilities incurred by him to the company." Has that provision always been observed in your company? A.—I cannot say as to that directly; according to our books that would appear to be the case.

Q.—That is to say that the stock standing in the name of the shareholder stands in his name without indicating that there is any trust connected with it, is that what you mean? A.—Yes.

Q.—As to whether or not it is for his own use you have never inquired? A.—We have never inquired.

Q.—We will probably consider that when we deal with the list of shareholders later. Then, by Section 6, a provision is set out for making calls on the capital stock. The first instalment was to be 25 per cent. Was that made? A.—That was made.

Q.—I think that your capital stock was issued at a premium of $25 per share, was it not? A.—25 per cent. of the paid-up portion.

Q.—Not the paid up, was it? A.—Yes.

Q.—I thought you issued it at a premium of $25 on every share? A.—No, 25 on the paid up portion of the capital.

Q.—$25 or 25 per cent.? A.—25 per cent.

Q.—So that when you made a call of $25 per share you would really be getting $31.25, would you? A.—Yes.

Q.—That is you would take an additional 25 per cent. on the amount you would call and treat that as premium? A.—Yes. There have been three calls made on the capital. $250,000, $100,000 and $100,000.

Q.—The first was $250,000, at what date? A.—At the organization of the company.

Q.—Then when was the next call made? A.—In 1899 or 1900, I think.

Q.—I think the next resolution governing calls on stock embodied two calls in the one resolution, did it not? A.—Yes.

Q.—We will probably get the date later, but two additional calls were made of 10 per cent. each, were they not? A.—Yes.

Q.—Making 45 per cent. called on the stock? A.—Yes.

Q.—And then there would be 11¼ per cent. additional paid in by way of bonus? A.—25 per cent. on the 10 per cent.

Q.—But taking the paid up as being 45 per cent., there would be ¼ of that, $11.25 additional on each share by way of bonus? A.—Yes.

Q.—Can you tell me why that was paid in as premium, Mr. Bradshaw, and not as a payment on account of the capital stock? A.—In the formation of a new company there are always extraordinary expenses in the earlier years and it was to meet those special expenses that the premium on the capital was called.

Q.—Would not the expenses be met just in the same way if the payment was made on account of the capital stock, as if it was made by way of premium, the company would get the same amount of money? A.—Yes, but that would mean that the policyholders would have to stand the brunt of the heavy initial expenses.

Q.—Explain how that works out? A.—The premium goes to pay the initial expenses of the company.

Q.—That is you say the subscriber for the capital stock after he has paid in his calls on the stock and the premium thereon is only interested in the company really to the extent of his capital? A.—Yes, that is the only liability the company has towards a shareholder.

Q.—In making a division of profits as between policyholders and shareholders, what would be taken to be his interest in the company financially, the amount of his stock, or the amount of his stock plus the premium? A.—That is a legal question, Mr. Tilley, and I am not prepared to answer it. That depends upon the construction of the Act of Incorporation.

Q.—How have you regarded it? A.—I have not seriously considered it yet. It has not arisen in practice.

Q.—Why is that? A.—We have just paid a dividend to the shareholders on the paid up portion of the capital.

Q.—You have kept it all in a common fund, the profits and surplus and so on? A.—Yes.

Q.—We will probably discuss that under another section a little more fully. Clause 7 provides that the Board of Directors shall not be less than 7 nor more than 20. I think there have been changes from time to time? A.—Yes.

Q.—The usual board numbering about how many persons? A.—15.

Q.—And as high as? A.—I think 17 or 18.

Q.—18 is my recollection? A.—Yes.

Q.—Then Section 9 provides that the head office shall be at Toronto? A.—Yes.

Q.—Then you may have branches, sub-boards, and agencies either within Canada or elsewhere in such manner as the directors from time to time appoint. You have given us, I think, a list of all these special committees in Canada? A.—Yes.

Q.—Have you any outside of Canada? A.—No.

Q.—Have you entered any foreign fields yet in your insurance work? A.—Not outside the British Empire. We do business in Newfoundland and in the West Indies.

Q.—You do not carry on business in the United States? A.—No.

Q.—Or in Mexico? A.—No.

Q.—And in those places that you do carry on business, Newfoundland and the West Indies, you have no boards or committees formed? A.—No.

Q.—Then section 10 provides for the investment of funds. I suppose you have considered that section carefully, Mr. Bradshaw? A.—Yes.

Q.—Have you ever had any opinion on the Section from solicitors? A.—No.

Q.—But it is a section that has been considered by you. Do you, in your investments, rely on anything in that Section 10 or are you governed by the General Insurance Act, Section 50? A.—By the General Insurance Act. That is wider than this provision.

Q.—There is no particular that you know of that makes your power of investment under your own Act any wider than given to companies in Canada by the Insurance Act? A.—No.

Q.—Then we need not consider that section at all. Then there are provisions here as to loans and taking additional security. In that respect it is the same as the General Act? A.—Yes, I believe so.

Q.—And also as to the investment in foreign securities? A.—Yes, we have not invested in any foreign security. Pardon me, I must take that back. I should say that we have not now any foreign securities. That is what I meant to say.

Q.—Yes, I think we will leave that until later. Then the power to hold real estate. Now, Section 14 is the section you were referring to as to the division of profits between your shareholders and policyholders? A.—Yes.

Q.—And that is drawn, apparently, to give the directors the broadest possible power. A.—The matter is left entirely in the hands of the directors.

Q.—That would seem to be the intention of the section? A.—Yes.

Q.—And the directors of the company declare a dividend to the policyholders the same as the directors in an ordinary mercantile company would declare a dividend to the shareholders? A.—Pretty much the same.

Q.—Section 14 is, "the directors may, from time to time, set apart such portion of the net profits as they shall deem safe and proper, for distribution as dividends or bonuses to shareholders and holders of participating policies, ascertaining the part thereof which has been derived from participating policies, and distinguishing such part from the profits derived from other sources; and the holders of participating policies shall be entitled to share in that portion of the profits so set apart, which has been so distinguished as having been derived from participating policies, to the extent of not less than 90 per cent. thereof; but no dividends or bonus shall at any time be declared or paid out of estimated profits, and the portion of such profits which remain undivided upon the declaration of a dividend, shall never be less than one-fifth of the dividend declared, and the directors shall not be obliged to allot such portion of profits to such holders of participating policies oftener than once in 5 years." When did you first declare profits under that section? A.—In 1902.

Q.—Have you declared profits since? A.—Each year since.

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—Would you tell me, precisely, how you go about the declaring of profits? A.—At the end of any year the total additional surplus available for distribution is found from the company's statement and 10 per cent. of this amount is written into shareholders account, and the remaining 90 per cent. of the additional surplus is divided amongst the policies. We keep an individual account with each policy on a card of this character.

Q.—I suppose the different colors of these cards denote different plans of insurance? A.—Different years of distribution. The heading of the card shows 10 years or 15 years. There is first of all entered on this card at the end of any year, interest on the surplus to the credit of the policy at the end of the preceding year at the rate earned by the company. Secondly, in the column "Excess interest surplus" there is entered 90 per cent. of the interest which was earned on the policy reserve in excess of the rate required to maintain the reserve. Then there is entered the policy's share of the balance of the 90 per cent. of additional surplus after deduction of the total surplus entered on all cards as in the previous statement, and this balance being divided amongst the policies in proportion to the respective premium loadings. Then the policy's share of the total surplus on accumulated surplus policies, which was released in the year by terminations, the released surplus being divided amongst all policies in proportion to the surplus to the credit of it at the end of the preceding year. Those 4 items summed up give the total surplus for the year, this sum being entered on the card, and the total surplus for the year is added to the surplus to the credit of the policy at the end of the preceding year to get the total surplus at the credit of the policy at the end of the year under consideration. By that means we can determine at any period the exact amount of surplus to the credit of a policy. I might say, further, I should have preceded that explanation by an explanation of the method in which we distribute our surplus. We do it according to what is known as the Modified Contribution Method. This method was originated by the eminent actuary Dr. Thomas Barnes Spragge and subsequently modified by Mr. Maurice Black, a Fellow of the Institute of Actuaries, who was actuary of that celebrated company, the Australian Mutual Provident. The fundamental principle underlying the method is to make a broad division of the surplus into two parts which are distributed according to different systems, the first part consisting of the interest earned in respect of the reserves on the participating policies in excess of the rate assumed in the valuation, is divided in proportion to the reserves upon which such excess arises or such excess interest has been earned. The second part embraces the whole of the remaining surplus, including the profits from loading, lapses, surrenders, mortality, etc., and is divided in proportion to the loadings paid. In its broad outline the method follows the contribution system originated by Sheppard Homans, also an eminent actuary, of New York, but while preserving to a great extent the advantages of that method, this system avoids the complicated and rather cumbrous process in consequence of which Mr. Homans' method has never found favor in Great Britain. The system has been adopted either in its entirety or with slight modification by practically all of the Australian life offices and by several of the important British offices.

Q.—That is the method you have intended to use in the returns you have sent in to us? A.—Yes.

Q.—We will discuss that more in detail later under that heading. For the present I just wanted to get in a general way your method of following out Section 14. Has this card system been in use by your company from its formation? A.—From the time that profits have been paid to policyholders or were due to be paid to policyholders.

Q.—That was in 1902. No profits were paid to shareholders before the policyholders? A.—During the years 1897-8-9, 1900 and 1901 no dividend, bonus or credit was made to shareholders. The profits to policyholders and dividends to shareholders commenced to be made in 1902 at the same time.

Q.—Is this the same system of keeping an account with each policy that Mr. Papps outlined in his evidence, can you tell me? A.—I think it does resemble that system. In detail it does not follow out his system, but I understand he proposes to have an individual card for each individual policy.

Q.—Your company and the Manufacturers, seem to be the only com-

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

panies, so far, that are using that individual card system? A.—I do not know of any others.

Q.—In some companies it has been said that returns are made up and sent to actuaries in the United States—consulting actuaries, they are called—to settle the method of distribution of profits. What do you say of that plan? A.—Well, I have had no experience of that and I could not pass judgment upon it.

Q.—Why have you not had any, because you would not? A.—I have not had the necessity to have any experience of that kind.

Q.—It does not give the same accurate result, I suppose, as this system that you have outined here? A.—I think it would be desirable for an office to have a system of its own and to work it out to its proper conclusion.

Q.—Does doing it in this way involve much labor? A.—Yes, considerable labor, but when it is systematized and you have trained actuarial men, the work involved is not laborious.

Q.—Then do I understand that you take all the surplus of the company, all that you could call profits of the company, and divide that 90 and 10 as between policyholders and shareholders? A.—Yes.

Q.—Do you leave any of the profits then with the company? A.—These profits are not paid out. They are accumulated and the whole are left with the company until the distribution period comes around.

Q.—You create, then, a fund for shareholders and for the policyholders in that way? A.—We have not divided the funds as yet on our books, but in our office records we have a division.

Q.—This section says, "and the portion of such profits which remain undivided upon the declaration of a dividend, shall never be less than one-fifth of the dividend declared." Has that been observed? A.—Always.

Q.—Under that system of division do the policyholders get more or less than they are entitled to under the section, or exactly what they are entitled to? A.—I think they get exactly what they are entitled to.

Q.—This section says, "they shall set apart such portion of the net profits as they shall deem safe and proper, for distribution as dividends or bonuses to shareholders, and holders of participating policies, ascertaining the part thereof which has been derived from participating policies, and distinguishing such part from the profits derived from other sources; and the holders of participating policies shall be entitled to share in that portion of the profits so set apart, which has been so distinguished as having been derived from participating policies, to the extent of not less than 90 per cent. thereof." A.—Our distribution has taken notice of that provision.

Q.—You did not take notice of it in the method of dividing it that you outlined to me. You said you would take the whole profits of the company, and divide them, one to the shareholders and nine to the policyholders? A.—To the participating policyholders.

Q.—That would mean that the participating policyholders would get 90 per cent. of all the profits of the company? A.—No, 90 per cent. of the participating profits.

Q.—How do you first determine the participating profits? A.—We determine the profits arising from participating policies and also from non-participating policies. We determine the profits arising from non-participating policies in the same way as we do participating policies.

Q.—How do you do that? A.—You have the reserve and the excess interest on the reserve, you can determine what profit arises from that source.

Q.—You take the average rate that the company has earned? A.—Yes, and then you know the loading on each non-participating policy and you determine the profit arising from that loading.

Q.—When you speak of the 90 per cent., you speak of 90 per cent. of the participating profits? A.—Yes.

Q.—And the 10 per cent. of those participating profits you say go to the shareholders and all the other profits of the company? A.—Yes.

Q.—But that has never been kept in any fund by itself? A.—No, not by itself.

Q.—Can you say what it amounts to at any time? A.—Yes.

Q.—From what? A.—From a record which we have in our office.

Q.—Kept in the books? A.—Kept on actuarial sheets.

Q.—Why is it not kept of record in your books? A.—The reason is that there seems to me to be some doubt as to the construction of section 14 of the Act of Incorporation.

Q.—Then do I understand that you are, as it were, holding in abeyance a final dividend and conclusive division?

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

A.—Until that point has been cleared up, and we are seeking new advice and counsel in regard to it.

Q.—When did you first seek advice about it? A.—It has been a matter discussed on and off for some time, probably for about a year and a half.

Q.—Tell me what the point is that you are in doubt about under the section? A.—The point I am in doubt about is as to the premium on the capital stock.

Q.—The point we mentioned some time ago? A.—Yes.

Q.—What is the difficulty about that? A.—Whether that should be regarded as belonging to the shareholders.

Q.—Whether that is part of the shareholders' fund? A.—Yes.

Q.—Or whether it cannot be treated as belonging exclusively to shareholders? A.—Yes.

Q.—What is your view of it? A.—I have no view.

Q.—Oh, yes. A.—No, it is a legal question, I think, and I am not competent to pass upon that.

Q.—At any rate nothing has been determined with respect to that yet? A.—Not yet.

Q.—And in the meantime you are keeping the matter in abeyance? A.—Yes, we are keeping a complete record so that whatever is decided we will be easily able to open up the proper accounts in our general ledger for policyholders and shareholders. In the meantime we have, as I have stated, a complete record of the surplus for every policy.

Q.—I do not want to follow that further for the present.

MR. KENT: Did you pay dividends on the premium to shareholders? A.—No, only on the paid-up capital, not on the premium.

MR. TILLEY: Then under Section 15 power is given to the company to grant to the holders of participating policies certain rights with respect to voting. Has that privilege ever been exercised by the company? A.—No, the matter has never been brought up or discussed.

Q.—Policyholders in your company have no vote at all? A.—No.

Q.—You say it has never been discussed by the management? A.—Never discussed.

Q.—Do you think they should have votes? A.—That is for the directors to determine.

Q.—But you are one of them? A.—Well, my individual opinion would hardly be sufficient.

Q.—If we call all the directors we will get all their opinions? A.—Well, this is what I think about it; I do not think that it would hurt a company to permit the policyholders to vote.

Q.—When you say you do not think it would hurt a company is there a prevailing opinion that it does not hurt a company? A.—In fact it probably might make the company more popular. The matter has never been discussed by our directors, and none of us have expressed any opinion upon it. I am just expressing my personal view that I think it might be a matter that might create a deeper interest in the company by the general community of policyholders, and that it would probably be the means of enabling the policyholders to take more interest in the management of it.

Q.—Are there any objections to policyholders voting? A.—No, I don't think so. The privilege has been given by several Canadian companies and I have never heard that it has been abused or been any detriment to the company.

Q.—It is suggested by some that it might be advisable at a certain time to, as it were, wipe out the capital stock and let the policyholders control the company directly? A.—That would not be feasible in many instances.

Q.—Why not? A.—Because at the present time the capital stock of life insurance companies is impaired. Another reason is that it would be taking away vested rights from the shareholders.

Q.—Of course you are speaking now of companies already formed. That would not apply if a company was formed with that provision staring them in the face, would it? A.—No.

Q.—Your company, apparently, had not that sort of a transaction in view when it was formed? A.—There is no provision for that, the retirement of the capital.

Q.—But there is a provision to increase it to $2,000,000? A.—Yes, but that matter has never been considered for a moment by us.

Q.—Such a capital would not be necessary? A.—No, I do not think it would be necessary. I cannot conceive that it would be necessary unless the company met with very great losses. A life insurance company is not subject to the fluctuations of many other commercial ventures.

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—Not subject to the same risk as fire insurance companies in that regard? A.—No.

Q.—In your opinion does a control by policyholders voting serve to bring the absoulute control of the company into the hands of the managers of it, more or less than the control by shareholders and policyholders? A.—You have reference now to mutual companies?

Q.—Yes. A.—We can only take the history of mutual companies. In the United States we know that in mutual companies where policyholders only have the right to vote, where there are no stockholders, that the management has been just as securely entrenched, and the directors just as securely entrenched as in stock companies.

Q.—How is that brought about? A.—That is brought about, I believe, by the proxy system. The proxies are given in favor of the management.

Q.—Apparently then the idea would be that managers are in a better position to get proxies than any other persons who would be? A.—The managers and agents.

Q.—The managers getting them through the agents, I suppose that would be the channel by which the managers would get them? A.—Yes.

Q.—The agents would have the best position to get them and then they would be in a position to turn them over to the management if they so desired? A.—If they so desired.

Q.—Does that lead to any abuse that you know of or is it wholly good? A.—I think it depends altogether on the management. Take, for example, the Australian Mutual Provident. In that company the policyholders alone have the right to vote, and the management invites the policyholders to vote. I think at the last voting some 60,000 policyholders voted on the question as to whether the business would be extended from Australia into Great Britain. There was a very large division of opinion, there was a large majority vote, but it did not appear to have any effect upon the management. I think that the management is independent of the directors and therefore it is immaterial in such a case as that whether the policyholders have votes or not.

Q.—The companies that we have examined here that give the privilege of voting to policyholders, seem to give them that privilege if they attend in person and vote? A.—Yes, that I think is merely a play on words.

Q.—What do you mean, that that is not in reality a franchise at all? A.—No, it is impossible to get a large number of policyholders to come and vote in person at any meeting. They are scattered all over the Dominion.

Q.—And in foreign countries now, I suppose? A.—Yes.

Q.—So that it gives the franchise merely to persons living within a reasonable distance of the head office? A.—Yes, and provided they take an interest in what is going on.

Q.—Then you think your company is doing as much for the policyholders as to voting as a company which has merely the privilege of a personal vote by the policyholder? A.—I can see no difference.

Q.—Have you ever considered whether it would be possible to get a proxy system amongst policyholders that could be worked independently of the agents of the company? A.—The only way that could be done would be, I think, by mail.

Q.—Do you know of any companies that have endeavoured to get in the policyholders' vote by mail? A.—The Australian Mutual Provident does that. The company I referred to.

Q.—Any others? A.—No, I don't know of any others. There may be others.

Q.—Section 16 of your Act provides that directors shall have power, during any current dividend period, to charge the holders respectively of participating policies, with losses to the extent to which they have been credited with profits during such dividend period, if the losses require it, and retain the amount so charged out of such profits, or such profits as are declared as such, and credited to such holders of participating policies at any time; but the holders of policies shall not, as such, be liable to any other or greater extent than is expressed by the terms of their policies. Do you know what the object of that clause is? A.—I presume that if the company met with any serious loss and had apportioned to policies uniform dividends, that they would have the right to take away from those policies the uniform dividends that had been credited to them?

Q.—It is to prevent it being argued that where a certain portion of profits has been credited to a policyholder that that is a vested right that cannot be taken away from him, I suppose? A.—Yes.

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—It is limited apparently to losses arising in the dividend period, to be deducted from the profits of that same period? A.—Yes.

Q.—There seems to be no provision for charging up losses in one dividend period against gains in another? A. —No, that is right.

Q.—Is that proper? A.—Personally I would have liked to have seen it broader.

Q.—Have you ever had occasion to rely on this provision? A.—No.

Q.—But you think it would be better to charge up losses against? A. —The whole body of policyholders.

Q.—Then Section 17 gives the policyholder certain rights with regard to surrender values. "Whenevr any holder of a policy shall have paid 3 or more annual premiums thereon and shall fail to pay any further premium, or shall desire to surrender the policy, the premiums paid shall not be forfeited but he shall be entitled to receive a paid up and commuted policy for such sum as the directors ascertain and determine, or to be paid in cash such sums as the directors fix as the surrender value of the policy, such sum to be ascertained upon principles to be adopted by by-laws applicable generally to all such cases as may occur, provided he shall demand such paid up and commuted policy or such cash payment while the original policy is in force or within 6 months after his failure to pay a premium thereon." Is that section set out in your policies? A.—Yes.

Q.—Have you altered it at all, have you given the policyholders any greater rights than this Section gives them? A.—Yes, we have given them other options. In addition to a paid up policy we give the option of a cash surrender value and the option of extended term insurance.

Q.—That is applying the money in payment of their premiums? A.—Yes and also a further option of carrying the insurance for the full amount as term insurance for such time as the cash surrender value will permit.

Q.—Have you altered the provision at the end of the section which says that the policyholder must apply for these rights or the option that he chooses within a certain length of time? A.—No, I do not think we have altered it but our practice is, if a man fails to pay his renewal premium, after making every effort to secure his continuance, we enter into correspondence with him pointing out the options which he has, and by that means we carry to his credit or pay to him the value which he is entitled to under his policy and under this section.

Q.—Is that done by a separate correspondence with each policyholder, or have you regular forms for that? A.—It is done by separate correspondence direct with the policyholders sometimes and through the agents sometimes.

Q.—But have you any printed forms for that? A.—No.

Q.—Do you start out by ascertaining the present condition of health and so on of the assured? A.—No.

Q.—That does not in any way affect your taking up the matter in the way you have indicated? A.—No.

Q.—You, I suppose, try to get the premium collected first? A.—We do everything in our power to secure the continuance of the policy.

Q.—That is your first object? A. —Yes. If the agent fails also in that, we request him to furnish us with the reasons why such policy is not continued, and then we enter into a correspondence with the policyholder. Our correspondence extends to not less, in most cases, than 7 letters urging upon the policyholder the benefits of the contract and indicating that the company will, on its part, do everything in its power to assist him to retain the policy. If we fail to secure the continuance of the contract, then we pass to his credit or pay to him the value of the policy.

Q.—Is that an invariable rule on your part? A.—Always.

Q.—Do you have regard to this 6 months' period during which he must apply? A.—No.

Q.—Have you ever credited such profits to him or dealt with him in that way after the six months had expired? A.—Yes.

Q.—Voluntarily? A.—Yes, there is no case in the company's experience where the policy has been 3 years in force and is entitled to a surrender value, that that policyholder has not been paid the amount of his cash surrender value or if we are unable to locate him, that that amount has not been passed to his credit in our books.

Q.—What I am asking you does not suggest that we have any complaint, I may say we have no complaint? A.—No, but I think that practice varies from the practice in some of the companies, that is why I wish to emphasize it.

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—Would it not be wise to have the section changed so that the man would be given this from you without any generosity on your part? A.—We do not think it is generosity. We think he is entitled to it.

Q.—Don't you get any letter from him, such as one we have had exhibited here, where the beneficiary disclaims any right to the money and takes it as a gift and a generous attention? A.—Well, if we do we do not take any notice of the letter. We like to receive the letter but we do not parade it, we think he is entitled to that value and I see no objection to the provision in the General Act.

Q.—You say, without any mental reservation at all, that you always treat your policyholders as entitled to that whether the 6 months has elapsed or not? A.—Yes.

Q.—Then that is a matter that you would not object to having amended in the General Act, so that that would be the policyholders' right? A.—None whatever.

Q.—Then, following your Act of Incorporation, there are the by-laws of the Company. Do you know up to what date these are complete? A.—I think this pamphlet was published in 1897 just immediately after the company was formed and they are very incomplete. We have not published, printed, new by-laws.

Q.—Can you say which of these by-laws have been in any important respect amended? A.—Did we furnish you with copies of the by-laws?

Q.—The amendments are in the Minutes as they occur from time to time. There is no place where they are all collected, I think. A.—This will indicate, I think.

Q.—You have taken the by-laws and shown the amendments that have been made from time to time? A.—Yes, I do not think there have been any important changes in the by-laws.

Q.—There have been a number of changes, such as having two vice presidents, changed to a First and Second, and so on. I do not think these are material. I do not think there are any important amendments there, so that this pamphlet may be treated, so far as our purposes are concerned, as your by-laws, that will be in the Exhibit (Exhibit 218.) Is this card any use? A.—No, we prepared that especially. I just put the initials there.

Q.—These two may be put in, then? A.—Yes.

Q.—We will put these two cards in then (Exhibit 219.) The first persons who applied for shares in the stock were Mr. George A. Cox, 2,500 shares; J. W. Flavelle, 800 shares, S. C. Wood, 100 shares; F. C. Cox, 500 shares? A.—Yes.

Q.—Under that subscription Mr. Cox had the control of the voting power of the shareholders at that date? A.—Yes.

Q.—Then later a list of general subscriptions was put in at page 16 of your book, here. The next subscription is at page 35. The Central Canada Loan and Savings Company does not appear there as a subscriber for stock? A.—No.

Q.—Can you say whether any of the subscriptions were for the Central Canada Loan and Savings Company? A.—No, I cannot, no, not to my knowledge.

Q.—At the present time the Central Canada is a large shareholder? A.—Yes. This document I may hand in; it indicates the present standing.

Q.—"Shares in stock on which dividends are paid to the Central Canada Loan and Savings Company." (Exhibit 220.) You have given a list of all persons on whose stock the dividends are paid to the Central Canada? A.—Yes.

Q.—And from that you assume, do you, that these shares are held at the present time by the shareholders named, on behalf of the Central Canada? A.—I don't know about that.

Q.—How does it come that the dividend is paid to the Central Canada? A.—These are the names of the shareholders in our books and we have instructions from these persons to pay the dividends to the Central Canada Loan and Savings Company.

Q.—"E. C. Taylor" should that be "F. C. Taylor"? A.—Yes.

Q.—I will change it here. There are then 7,318 shares in respect of which you send to the Central Canada the dividend? A.—Yes.

Q.—And so far as you know the dividend belongs to the Central Canada? A.—I don't know.

Q.—You know nothing to the contrary of that? A.—I do not know that that is the fact or that it is not the fact.

Q.—You don't know anything about it. Are the amounts set out here opposite these names, the total holdings of these persons, in the most of cases? A.—No, in most of the cases.

Q.—Take Mr. Baird, is that his total holding? A.—No.

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—How many shares does he hold? A.—He has 50 shares in addition to that.

Q.—Mr. Baillie? A.—Those are all of his shares.

Q.—Mr. Bradshaw? A.—He has 57 shares additional.

Q.—That would be your own shares? A.—Yes.

Q.—I suppose you can speak of those, whether those belong to the Central Canada or not? A.—The 450 shares in my name do not belong to me.

Q.—Who do they belong to? A.—The Central Canada Loan and Savings Company.

Q.—The Hon. G. A. Cox, 250 shares. Is that his total holding? A.—Yes.

Q.—At the time this statement was made up that was all he held? A.—Yes.

Q.—Have you always sent to the Central Canada the dividends on Mr. Cox's shares in this way? A.—I cannot answer that. For some time we have.

Q.—If they were his own shares you might still send the cheque to the Central Canada, you suggest? A. Yes, we might do that.

Q.—F. C. Cox, 950? A.—He has other shares.

Q.—So that you issue one cheque to him for his 50 shares? A.—Yes.

Q.—And you issue a cheque to the Central Canada for the 950? A.—Yes.

Q.—H. C. Cox? A.—He has no others.

Q.—E. W. Cox? A.—No others.

Q.—The Central Canada, of course, those would be all theirs.

Q.—A. L. Davies? A.—No others.

Q.—Mr. Drummond? A.—No others.

Q.—Mr. Housser? A.—No others.

Q.—Mr. Howell? A.—No others.

Q.—Mr. Hodgins? A.—No others.

Q.—Mr. Kenny? A.—Yes, he has other shares.

Q.—How many? A.—50 shares.

Q.—Do you know whether those 450 shares belong to the Central Canada? A.—I do not.

Q.—Mr. E. T. Malone? A.—60.

Q.—Mr. W. G Morrow? A.—He has no others.

Q.—Mr. G. A. Morrow? A.—Yes, he has other shares.

Q.—Mr. Moodie? A.—No others.

Q.—Dr. Potts? A.—No others.

Q.—Mr. Peacock? A.—No others.

Q.—Mr. Taylor? A.—No others.

Q.—Mr. Wood? A.—No others.

Q.—Are any of the parties who have no other shares, except the ones shown here, directors in your company? A.—No. Yes, Mr. Drummond, he has no other shares and he is a director.

Q.—F. C. Taylor, is he a director? A.—No.

Q.—And E. R. Wood is not a director now? A.—No.

Q.—Can you say whether any of these are hypothecated? A.—No, I cannot.

Q.—Or in trust, A.—No, I cannot.

Q.—All you know is that you get an order from these shareholders to pay their dividends to the Central Canada? A.—Yes.

Q.—And you cannot give any assistance at all as to the terms on which the Central Canada hold them? A.—No.

Q.—Mr. Morrow is here; probably he could give you the information and we could get it down now. He has been obliging us in that way in other cases.

MR. MORROW: All those shares that are not held by the directors to qualify them, are owned by the Central Canada. That is the control the Senator spoke about.

Q.—All the shares that are here except their qualifying—

MR. MORROW: No, not their qualifying. All the directors own their shares to qualify them, except Mr. Drummond. The balance of that list, we own all those.

MR. MALONE: That 35 is not mine.

MR. MORROW: I do not know what that 35 is, but the Central Canada owns somewhere around 7,300 shares.

MR. TILLEY: The Central Canada Loan and Savings Company hold the control that Mr. Cox spoke of the other day as resting either in himself or companies of which he was President?

MR. MORROW: That is right.

MR. TILLEY: The real control then is in the company rather than in Mr. Cox?

MR. MORROW: Yes.

MR. TILLEY: Now in connection with that matter there was an agreement put in, in connection with the evidence given with regard to the Canada Life, between the Central Canada Loan and Savings Company and Mr. Ames and yourself, I suppose you remember that agreement? A.—I do.

Q—.On the 2nd of January, 1902. At that time Mr. Cox, or the Central Canada Loan and Savings Company

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

held the control in the Imperial Life? A.—Yes.

Q.—That is shown here by the number of shares that he held, 5,350. And that is the reason, I suppose that the agreement was made with the Central Canada rather than with Mr. Cox, because the company was, as it now turns out, the absolute owner. You and Mr. Ames controlled at the time 1,850? A.—1,950.

Q.—1,850 it is here. 1,950 is right? A.—1,950.

Q.—My copy is wrong then, that is all. I will make the change. (Referring to Exhibit 187.) This agreement if carried through to completion would bring what result with regard to control? A.—There would be no one in control of the company.

Q.—There would be no one person or company in control of the Imperial Life? A.—Yes.

Q.—You and Mr. Ames would have exactly the same holding as the Central Canada and Mr. Cox? A.—Yes.

Q.—And the shares of the rest of the shareholders would form the balance of power in case of a difference between you? A.—Well, the agreement provides that in case of any difference of opinion—

Q.—But if the agreement was carried out and you had actually got the shares? A.—Yes.

Q.—The provisions in this agreement, I understand, are only to work the matter through until you would complete the purchase, or did they go beyond the purchase? A.—I have not looked at the agreement recently and I am not very familiar with the terms of it.

Q.—The agreement provides that the purchase price of 1,700 shares which would be required to give you an equal holding with the Central Canada shall be $114,750? A.—Yes.

Q.—Can you say whether that represented the cost of those shares or was that giving a profit on them? A.—That, I think, was the cost of the shares with interest to date.

Q.—And crediting any dividends that might have been paid? A.—Yes.

Q.—Then it says the dividends on the shares are to go in lieu of interest with a certain provision in case they should exceed 6 per cent? A.—Yes.

Q.—Clause 2 provided that the 1,700 shares were to be transferred to the National Trust Company, Limited, as trustees to be held as security for payment of the balance of purchase money. The dividends to be paid to the vendors in lieu of interest. Were the shares transferred to the National Trust Company? A.—I presume so.

Q.—I do not think so myself? A.—At the end of 1902 the National Trust should appear as shareholders. They do not appear here. The National Trust appears to be the holder of 450 shares at the end of 1902.

Q.—But they were the holders of 300 shares at the end of 1901? A.—Yes. During 1902 there appears to have been transferred to the National Trust Company 350 shares.

Q.—And the National Trust Company transfers 200 shares? A.—Yes, that would leave 150.

Q.—So that the 1,700 were not transferred? A.—Apparently they were not transferred.

Q.—Then there is a provision as to the payment of the balance and that in case of default the vendors may elect to give notice to have the shares transferred back. The National Trust Company, the agreement provided, should exercise the voting power of the 1,700 shares in such a way as to carry out the objects of this agreement. What does that mean? A.—The object of the agreement is stated to be that the parties to it should have an equal holding of shares.

Q.—Yes, it recites that they deem it in their interest to have equal holdings of shares in the stock of the company? A.—Yes.

Q.—And you think that is what it means, this clause about voting? A.—I think so.

Q.—There is nothing else that you know of at the time that was in contemplation that that was to apply to? A.—No, nothing at all.

Q.—Was that the object of the agreement, what is expressed there? A.—Yes.

Q.—You were not regarding it is much as an investment as an arrangement whereby the control was divided? A.—Yes.

Q.—Might I ask, I suppose it is probably unnecessary after that statement, whether you regarded it as objectionable that control should be in the hands of one person or one company? A.—That is a very broad question to answer, Mr. Tilley, the question of control of any kind of a business depends altogether upon the person who is controlling it. If the person in control of the company is one in whom every one has confidence,

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

then there can be, I think, no objection to that person controlling. We look around and we see every day institutions which, unless they had been controlled by a master mind, would not be in existence to-day. Take the Bank of Commerce, for example. Who was that? It was Mr. MacMaster. Take the Dominion Bank. Who was that? Mr. James Austin. Take the C. P. R. Who was that? Van-Horne. Shaughnessy now. And so on, there must be a master mind, and therefore, control is not objectionable when that master mind is a character in whom everyone has confidence and who has the best interest of the concern at heart.

Q.—That is in the abstract. Now the concrete?

MR. BLAKE: It is the concrete that he has given you. The instances. Your firm of Tilley & Tilley, and mine of Blake & Co., what would they be without our names?

MR. TILLEY: But he did not mention our names, Mr. Blake? A.—I might say with regard to this agreement, that so little interest did I take in it that I didn't know anything about it, its completion or the terms of it until I signed it, and from the time that it was signed until the agreement was terminated I never looked at it.

Q.—We are getting a lot of people in the witness box who treat such big matters with indifference? A.—These are facts.

Q.—Then when you are referring to the cases where so long as the master mind is acceptable there is no objection, you were not distinguishing those cases from this case were you? A.—No.

Q.—Then was the object of this agreement—leaving out how little attention you paid to it afterwards—because you did regard control as objectionable in a life insurance company? A.—Well, I didn't bring about the agreement.

Q.—Who brought it about? A.—I think the agreement was brought about by Mr. Flavelle and Mr. Ames.

Q.—Then do you say that in general you do not raise any objection to control? A.—In general, no.

Q.—But you say it is all a question of the person who is in control? A.—Yes.

Q.—I do not know whether it is fair to pursue that further, Mr. Bradshaw, but if you have anything more to say as to the way in which this agreement came about, I would be glad to hear it? A.—I was taking a good deal of interest in the company and Senator Cox was very generous in arranging that my interest in the company should be greater than it was before, and also that view was held by Mr. Flavelle and Mr. Ames.

Q.—Then is it something that you did not take any prominent part in bringing about? A.—I was not the moving spirit in it, nor did I take any interest whatever in the agreement. Until it was prepared, I did not know the terms of it. So far as my recollection goes the terms were not discussed with me even.

Q.—You say it was arranged between Mr. Flavelle and Mr. Ames on the one part do you mean, and Mr. Cox on the other? A.—I do not know whether it was Mr. Cox or the Central Canada, but I would judge it would be Mr. Cox.

Q.—The question of control seems to crop out all through the agreement does it not? A.—It is a feature of it

Q.—There is a provision that if either party desires to increase his holding of shares beyond the amount mentioned that notice shall be given and the other party to the agreement shall have the right to take one-half? A.—Yes, I don't think that that provision was exercised by either party.

Q.—But it indicated that neither one was to get a larger holding than the other? A.—Their holdings were to remain stationary as it were, or equal.

Q.—An agreement that you shall co-operate in the selection of Directors, and that in case of failing to agree it shall be referred to arbitration. Was that ever acted on? A.—No. As I say, the agreement was never referred to by any of the parties to it so far as my knowledge extends, from the time it was executed until the time it was terminated.

Q.—Who had it drawn? A.—I have heard that it was Mr. Lash, but I could not say of myself.

MR. MORROW: Mr. Lash drew it for the Central Canada and Mr. Ames.

MR. TILLEY: Then you are to try to agree on all questions that arise at meetings of the shareholders of the company so as to vote in unison. Should you not agree the meeting is to be adjourned for further consideration, and if no agreement within five days, the matter is to be referred to some person to be agreed upon by the parties, whose decision shall be final?

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

A.—We were always a happy party, and there was no question of disagreement in the company.

Q.—It seemed to be on the edge? A.—No, in an agreement you provide for many things that never take place.

Q.—Quite true, and fail to provide for the things that do take place? A.—Sometimes.

Q.—The result would be to place the affairs of the company in case of disagreement, in the power of some person appointed for arbitration between the two parties represented in this agreement? A.—Yes.

Q.—Is that a good method of carrying on an insurance company? A.—Well, as I stated, I had not considered the terms of this agreement, and I am not in a position to express any opinion upon the provisions of it.

Q.—Would you state the circumstances under which it came to an end? A.—Mr. Ames broached the subject to me and suggested that the agreement that had been entered into should be terminated. I understand that it was to his advantage at that time that it should be terminated, and he desired that I would consent to it. I did consent to the termination of the agreement, upon receiving a certain sum of money, and Mr. Ames received a certain sum of money also for his interest. He received money for his interest, and I received the value of the agreement for my interest.

Q.—We were to be informed how that division was made. Did you look that up? A.—I received at the rate of $250 per share and Mr. Ames received at the rate of $200 per share.

Q.—The cost per share would be what? A.—$150.

Q.—So that you would receive $100 per share for surrendering the agreement as it were? A.—Yes.

Q.—That would make in the total how much money? A.—About $43,000.

Q.—That you received? A.—Yes.

Q.—And the balance of the $66,000 would be paid to Mr. Ames? A.—Yes.

Q.—You regarded the agreement as being of value to you at that time? A.—Mr. Ames had stated to me that he had arranged to receive a certain price for his shares, and I was not desirous of the agreement being terminated.

Q.—I understood there was some correction made afterwards, but it was rather understood that you were desirous of having it terminated as well as Mr. Ames? A.—No, I think Mr. Cox corrected that.

Q.—There was some correction made. What was the fact about that? A.—Mr. Ames suggested the termination of the agreement to me, and I said that I did not care about it being terminated; that I had no use for the money that was proposed to be paid for the termination of it, and that the agreement apparently had worked satisfactorily, and that I did not see any necessity for its termination. Mr. Ames however was rather desirous of having it terminated, and as the result of his desire I finally conceded the termination of the agreement.

Q.—You say it had worked satisfactorily under the agreement. Had there been anything that was unsatisfactory before? A.—No.

Q.—Nothing? A.—No.

Q.—Did you regard the stock as being worth what you sold it for? A.—Not then, but in the future I think it will attain that value.

Q.—Did you require any of that money to be paid because of the control being relinquished again? A.—No.

Q.—Was that present to your mind, that the control would again come into the hands of one person? A.—It may have at the time, but it was not a money consideration. It was not to be measured by money.

Q.—If you had not thought much about that when the agreement was made, I suppose that would cause you some consideration when you would surrender the agreement? A.—I suppose I did think about it at the time.

Q.—You would then regard it as being objectionable from your standpoint that the control should be in the hands of any person other than yourself? As being in the class that you mentioned of course? A.—As I stated, the question of control had never come up from the time that the agreement had been made until it had been surrendered, and I had not been thinking about it.

Q.—You would not need to think about it with the agreement? A.—No, probably not, and before that I might not have had a necessity to think about it, without the agreement.

Q.—Was there any arrangement made with you at the time that agreement was cancelled as to your further engagement with the Company? A.—Yes, one of the considerations of

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

the price paid for the cancellation of the agreement was that I would remain with the company for the term of 3 years from that time.

Q.—At a stated salary? A.—No, no mention whatever was made of salary at the time or at any subsequent time. The question of salary was not broached.

Q.—Was any written agreement made at the time this agreement was terminated? A.—None whatever.

Q.—Was any arrangement made as to the management of the company? A.—None whatever.

Q.—The management rested just where it would naturally rest after the agreement was executed? A.—There is no change whatever in the management.

Q.—Did any changes in the directorate of the company take place consequent upon the agreement? A.—No, none.

Q.—Or on the cancellation of the agreement? A.—None whatever.

Q.—When was the agreement cancelled?

MR. MORROW: Mr. Ames went out shortly after.

A.—Yes, but that was not at the time.

MR. TILLEY: His resignation was not consequent upon the agreement? A.—No.

Q.—He retired from the board in 1903 at the same time as he resigned the Presidency? A.—Yes.

Q.—And that was shortly after his suspension? A.—Yes.

Q.—At what date was this agreement cancelled, what year? A.—It was cancelled in the month of May, 1903.

Q.—Then that would be just a month before the suspension of Mr. Ames? A.—Round about that.

Q.—His suspension was in June, I think? A.—Early in June.

Q.—I notice that Mr. E. T. Malone and Mr. G. A. Morrow went on the board, but that was in the year 1905? A.—Yes.

Q.—That was not in any way in contemplation at the time you cancelled the agreement? A.—No, Mr. Malones' name had been suggested as a director for some time and Mr. Morrows' name also had been suggested as a director for some time.

Q.—Mr. Morrow being an officer of the Central Canada? A.—Mr. Morrow being an experienced financial man.

Q.—And an officer of the Central Canada? A.—And an officer of the Central Canada.

Q.—I suppose those two could go together? A.—Yes.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 P.M., June 8th, 1906.

Examination of Mr. Bradshaw continued:

MR. TILLEY: Q.—Will you give me a list of your present directors of the company? A.—H. N. Baird, Hon. Sir Mackenzie Bowell, F. G. Cox, E. J. Drummond, Dr. F. R. Eccles, Hon. William Harty, M.P., H. S. Holt, A. E. Kemp, M.P., J. J. Kenny, William Mackenzie, E. T. Malone, K.C., S. J. Moore, George A. Morrow, Warren Y. Soper, Hon. S. C. Wood, T. Bradshaw.

Q.—Then they were the same in 1905? A.—Yes sir.

Q.—In 1905 Mr. Malone and Mr. Morrow went on the Board? A.—Yes.

Q.—In place of Mr. Massey? A.—Mr. Massey was the only one and there was an additional one.

Q.—Besides the Board of Directors you have an Executive Committee? A.—Yes.

Q.—That is composed of all the members of the Board who reside in Toronto? A.—Yes.

Q.—How often does the Executive Committee meet? A.—Three times a month, the Board meets once a month, that is to say there is a meeting every Wednesday.

Q.—And besides the Executive Committee you also have a Committee, on investment and expenditure? A.—That is not existing now.

Q.—When did it cease to exist? A.—When we changed our meetings to weekly we thought that the Investment and Expenditure Committee overlapped the Executive Committee meeting, and as the members on the Investment & Expenditure Committee were on the Executive it did not appear to be necessary to have that Committee.

Q.—So that it lasted from January 19th, 1905, till April 4th, 1906? A.—Yes.

Q.—Then the Executive Officers' Committee is composed of the President, Vice-President, Managing Director and Secretary? A.—Yes.

Q.—What are their duties? A.—Purchase and disposals of securities when such is required to be done between these meetings and decide upon all matters which necessitate action

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

prior to the convening of the regular Executive and Board meetings.

Q.—I see the salary of the managing director, Mr. F. G. Cox in 1897 was $2,500? A.—That was for part of the year.

Q.—That would be for the two or three months that the company was in existence in 1897? A.—Yes.

Q.—In 1898 his salary was $6,000, and I suppose in 1897 it was at the same rate? A.—Yes.

Q.—Then expenses $1,480 making $7,480 total; were those expenses actual out-of-pocket expenses? A.—Yes, they were incurred in traveling visiting the agencies and establishing the company.

Q.—That applies to everything under the item of expenses in all these offices? A.—Yes.

Q.—I see 1899 the salary was $6,000, in 1900, 1901, 1902, 1903 and 1904 it remained the same? A.—Yes.

Q.—And 1905 it was raised to $8,000 and it is now that? A.—Yes.

Q.—Your salary commenced with $2,500 in 1897 and 1898, and remained the same until 1900? A.—Yes.

Q.—When it was raised to $3,500 and remained that till 1902 when it was raised to $5,000, and it remained that till 1905 when it was raised to $6,000? A.—Yes.

Q.—And is $6,000 now? A.—Yes.

Q.—Was there not some bonus of $1,500 paid to you in one year? A.—That is included in that salary.

Q.—Was that a bonus that had been decided on before the year, or was it voted after the year? A.—After the year was completed.

Q.—Has any other officer received a bonus after the year was over beside yourself? A.—No.

Q.—No other such payment; the other salaries, Mr. Pickett, who is he? A.—Assistant Secretary.

Q.—Dr. Davidson, he is a director and also the medical referee? A.—He is not a director, he is the chief medical referee.

Q.—Then directors are allowed a certain amount per meeting, is it now? A.—$7.50 for each meeting attending.

Q.—No other bonus for the year? A.—No.

Q.—And that applies to Committee meetings as well as Board meetings? A.—Yes.

Q.—It would not apply to the annual meeting I suppose? A.—No.

Q.—There was a report filed at Ottawa regarding an item of agents' balances, it is exhibit 21, a report made by A. K. Blackadar "In February, 1905, this company had omitted from the expenses items to an amount of $9,512 of advances to agents written off. This was entered in the synopsis of ledger accounts as agents' balances written off $9,512; if this is a loss by agents it should go into the expenditure, as a general expense item, and I have so transferred it"—was that item a loss by agents? A.—During the year certain special advances had been made to agents; these agents had all of them furnished good business for the company and were in the process of building up very important general agencies during the early years of the company. The company realized how important it was that their work should not be interfered with, and also believed that the growing business would recoup the advances; the history of life insurance over a term of years being full of cases where a little temporary help to a valuable agent is re-paid to the company tenfold. Each case received the most careful consideration strictly upon its merits, and the best judgment was given to it only in the interest of the company. These advances were made in that way, and they have mostly been re-paid to the company by the agents. I would not like to introduce here the names of the agents, but I would be pleased to let you have them.

Q.—I am not asking for the names of the particular agents for the present at any rate? A.—I may say the only balances outstanding now—

Q.—Have you the names of them there? A.—Yes. (Shows some names to Mr. Tilley). There were advances made to four agents, all of these advances have been re-paid or earned by the agents. Those two remaining balances are secured, one by a paid-up policy of $5,500, and the other by two life policies amounting to $3,000. The balance of the advances now amount to $6,546.85. They have been written off the books of the company; the company however expects to be recouped for those amounts.

Q.—How long have there been agents' balances either owing to the company or written off, how long have they existed? A.—1901.

Q.—The first was in 1901? A.—Yes.

Q.—This report of Mr. Blackadar's refers to the 1905 report I think, does it not? A.—I have not a copy of that report here.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—Here it is? A.—Yes, that would be the right amount of that year.

Q.—What amount was against agents' balances at the end of 1901? A.—$3,412.44.

Q.—Was that shown in your annual return for 1901? A.—No.

Q.—How was it treated at the end of that year? A.—Mr. Ames, who was then taking a good deal of interest in the company guaranteed the company against any loss which might occur through these advances being made.

Q.—When did Mr. Ames give that guarantee? A.—It was done verbally and at the time these advances were made.

Q.—That is the question of making certain advances to agents? A.—They were carefully considered by the officers, at the time and Mr. Ames was one of the officers, he was Vice-President at that time.

Q.—He you say guaranteed the company against losses with respect to particular advances then to be made by a general guarantee against all such items? A.—No, each case was considered on its merits.

Q.—Each time an advance was made it was considered on its merits? A.—Yes.

Q.—Was one of the four agents you have referred to in question at that time? A.—Yes.

Q.—Or was this some other agent? A.—No, there have only been four.

Q.—Were all these four made advances in 1901? A.—No, only two of them.

Q.—He agreed he would indemnify the company against any loss with respect to the items? A.—Yes.

Q.—What happened then with respect to the item that was paid? A.—At the end of each year in order to put the company into possession of moneys advanced and to establish Mr. Ames' guarantee Mr. Ames gave us his cheque and at the beginning of the following year the amount paid by Mr. Ames was re-paid to him, the expectation being—

Q.—Just a little slower; you say at the end of 1901 there was an item of $3,412.44 on the books as agents' balances? A.—Yes.

Q.—At the end of December of that year had that been cleared up by payments? A.—By Mr. Ames himself, yes.

Q.—Had he paid it himself? A.—Yes.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—When did he pay it? A.—On the 31st December

Q.—By giving you his cheque? A.—By giving us his cheque for the amount.

Q.—What happened to that later? A.—At the commencement of 1902 we gave him our cheque for—

Q.—How soon in 1902? A.—Almost immediately, about the first or second January.

Q.—You would give him a cheque back for the same amount? A.—Yes.

Q.—And then the account would be carried in that account for another year? A.—Until the end of the following year.

Q.—Why was that transaction carried through at the end of 1901 in that way? A.—In order that it might not appear in our books.

Q.—And it was understood I suppose that it would be chequed back at the beginning of the next year? A.—Yes, that was the understanding.

Q.—At the end of 1902 other advances had been made with Mr. Ames' approval? A.—Yes.

Q.—And under the same arrangement? A.—Yes.

Q.—And what did it amount to at the end of 1902? A.—$8.509.31.

Q.—And December the 31st a cheque would be given by him for the amount? A.—Yes.

Q.—And the beginning of the next year a cheque back? A.—Yes.

Q.—And the result would be it did not appear in your return to the Government? A.—No.

Q.—In 1903 were other advances made? A.—1903 the total advances made to agents amounted to $11,404.03.

Q.—Which would include— A.—The previous $8,509.31.

Q.—It would be a running account? A.—An increasing amount.

Q.—As the agent would earn commissions there would be credit, or there would be payments made and then advances and so on? A.—Yes, just a running account.

Q.—For the whole of that $11,404.03 had Mr. Ames given his guarantee? A.—Yes, in the way that I have spoken, there was no written guarantee, there was a verbal understanding.

Q.—Was he consulted as to the payments made to these agents? A.—Yes.

Q.—And he guaranteed it in that way? A.—Yes.

Q.—Guaranteed the company against any loss? A.—Yes.

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

Q.—What happened at the end of 1903? A.—During 1903 Mr. Ames dropped out of the company and the amount was paid to the company, the increased amount $11,404.03, by the Hon. Senator Cox, he taking Mr. Ames' position.

Q.—How did he take his position, by arrangement with some official of the company? A.—That is fully set forth in a minute of the Board.

Q.—I would like to find out with whom any arrangement was made with Senator Cox, if it was made with him, was it with you or some other person? A.—I was one of the persons.

Q.—Who were the others? A.—I think Hon. Mr. Wood and I think Hon. Sir Mackenzie Bowell.

Q.—The three of you representing the company had some discussion with Senator Cox about the payment of that money? A.—Yes.

Q.—What was the upshot of your negotiation with him at that time? A.—That he assumed Mr. Ames' position.

Q.—Did he understand Mr. Ames had guaranteed the amount? A.—Yes, it was represented to him, and that is why he paid that amount.

Q.—That Mr. Ames had guaranteed the company against loss in respect to agents' balances, and then he voluntarily, I suppose there was no obligation on him? A.—None whatever.

Q.—He voluntarily assumed Mr. Ames' position? A.—Yes.

Q.—He paid the $11,404.03? A.—Yes.

Q.—On the 31st December, 1903? A.—Yes.

Q.—Then what happened after that, was it paid back to him in January? A.—No, it was not paid back to him till the 3rd August.

Q.—Why was it not paid back to him the beginning of January as it had been done with Mr. Ames before? A.—Because there had been an understanding on the part of those with whom the conference with Senator Cox had taken place that the amount would not be re-paid to him; in that apparently they were mistaken.

Q.—Your understanding, and you are speaking now only for yourself? A.—Yes.

Q.—Your understanding was that when that payment was made at the end of 1903 there was to be no payment back to Senator Cox at all? A. Yes.

Q.—That the amount was to be paid and closed? A.—Yes.

Q.—And then if money were received from the agents or sums they should go in reduction of that claim, how would that be treated? A.—They were to be on the final accounting returned to Senator Cox.

Q.—In the meantime were the company to continue to collect them? A.—Yes.

Q.—Were they deposited to the company's credit or kept by the company? A.—They were kept amongst the general funds of the company, no special fund kept.

Q.—I saw something in the minutes that they were credited in the Central Canada office—however we will look at the resolution, it was in August, 1904? A.—Yes, on page 51 (of the return made to the Commission in answer to the questions sent out).

Q.—This is the resolution that you refer to, in the minute of the Executive Committee of August 3rd, 1904? A.—Yes.

Q.—And the persons present at the meeting were the Hon. S. C. Wood in the Chair, Messrs. H. N. Baird J. J. Kenny, the managing director that Mr. F. G. Cox? A.—Yes.

Q.—And yourself, the secretary. A.—Yes.

Q.—And it was moved by Mr. Kenny, seconded by Mr. Baird and approved, that "Whereas the Hon. George A. Cox paid to this company in December, 1903 the sum of $11,404.03, being the amount appearing in the books of the company as due by agents for advances. Several members of the Executive Committee understood that Mr. Cox assumed this indebtedness on the part of the agents, and expected to be recouped from time to time as these advances were re-paid, and the annual report for 1903 therefore shows nothing due on these accounts so far as the company was concerned, the duty of the company simply being to collect the moneys due and hand over the same to Mr. Cox. And whereas the Hon. George A. Cox states that such was not the understanding, that he simply advanced the money as a temporary accommodation, and that it should have been returned in January last, and that he would not have made the advance on any other terms; and whereas it must be assumed that Mr. Cox is right in his contention. Therefore the Chairman and Managing Director are hereby instructed to re-pay Mr. Cox the money so advanced; that as the money was deposited with the Central Canada Loan & Savings Com-

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

pany at Mr. Cox's request and allowed to remain on deposit with such company at his request, the adjustment and payment of the interest must be made between that company and him. Note: It has since been found that the above money was deposited to the company's credit in the Canadian Bank of Commerce, and the payment of interest by this company to the Hon. George A. Cox is therefore authorized. Confirmed. S. C. Wood, Chairman"— That is the resolution that closed up that matter? A.—Yes.

Q.—There is the reference that I was referring to with regard to the moneys being deposited with the Central Canada? A.—Yes.

Q.—Whose understanding was it that they were deposited there? A.—I think that was a clerical oversight.

Q.—Did the Imperial Life keep any deposit account with the Central Canada? A.—Yes.

Q.—Was it in any sense a special account? A.—No, we have had an account with the Central Canada Loan & Savings Company since the company started in 1897, a small account, drawing cheques and depositing moneys.

Q.—Treating it as an ordinary bank account? A.—No, we could get interest on our balance there when we could not at the regular bank.

Q.—You say you would cheque moneys out as you wished? A.—As we wished for an investment; we did not treat it as an active account.

Q.—More as a savings bank account? A.—Yes, uninvested balances.

Q.—I suppose all moneys are uninvested balances? A.—Yes.

Q.—You would get interest from the Central Canada on that amount? A.—Yes, and that is why the reference is made there.

Q.—What rate would that account bear interest? A.—I think we had a rate of 3½ per cent.; I am not quite sure about that.

Q.—What would be the largest amount you ever had deposited there? A.—Probably thirty or forty thousand dollars.

Q.—Would that be an average? A.—No, that would be an outside amount.

Q.—What might be said as a fair average, if you can make an average at all? A.—I would say, fifteen, twenty or twenty-five thousand dollars.

Q.—How long did that account remain there in that shape? A.—Until we wanted the money.

Q.—Was that the only way in which you loaned money to the Central Canada? A.—No, we have made call loans to them, and they have made call loans to us.

Q.—But those would be transactions which are set forth here in this book? A.—Yes, done in a business way.

Q.—Without regard to this transaction, are there any others of that kind, because that deposit account properly would not be shown in these returns? A.—Not that I know of.

Q.—The money was afterwards put to the company's credit in the Canadian Bank of Commerce? A.—Yes.

Q.—And a cheque would be given then to Mr. Cox in the ordinary course? A.—Yes.

Q.—With interest? A.—Yes.

Q.—So that Mr. Cox was re-paid all these agents' advances he paid out with interest in August, 1904? A.—Yes.

Q.—How was that money then treated in your books? As balances due by agents? A.—Yes, an individual account was opened with each agent, and the amount received from the agents during the year credited to these accounts; the balances due by the agents at the end of the year were written off.

Q.—How were they written off? A.—As an expenditure by the company, for $9,512.

Q.—Can you show it to me in the blue book? A.—Yes. (Points it out).

Q.—So that the item you are referring to is shown at page 225 of the blue book for 1904? A.—Yes.

Q.—Amongst the items of all other expenditure appears some agents' balances written off, $9,512; was that shown in the return you sent in to the Government? A.—Yes.

Q.—That was treated in that way in that year? A.—Yes.

Q.—During 1905 what happened regarding agents' balances? A.—Certain amounts were paid off and at the close of 1905 they were reduced to $6,546.35.

Q.—That is the amount shown in Mr. Blackadar's report, is it—his is $9,512? A.—That is the previous year.

Q.—What he said was: "This company had omitted from the expense items an item of $9,512 of advances to agents written off?" A.—It had been included in the statement under another heading.

Q.—Under a heading of what, Sy-

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

nopsis of ledger assets? A.—Yes, I think so.

Q.—And he transferred it to the expense column? A.—Yes, and it there appears in the printed returns.

Q.—Then I should not have interrupted you? A.—At the close of 1905 those advances had been reduced to $6,546.35, for which the company hold a paid-up policy of $5,500, and on which no further premiums are to be paid, and two other policies amounting to $3,000.

Q.—How is that shown in your return for 1905? A.—The amounts having been writen off, they do not appear in the return of the company; If these amounts are received by the company they will be credited in subsequent returns as amounts received.

Q.—The item that you gave for 1904 was written off? A.—Yes.

Q.—Are the items for 1905 new advances? A.—No, there have been no new advances made

Q.—How is it when the item has been once written off that way you treat it as agents' balances in your— A.—That is in the internal workings of the company; we do not take credit for that as an asset in our return; some mercantile houses would take them as bad debts.

Q.—You had no doubt I suppose yourself that Mr. Cox was to have paid that item and take Mr. Ames' position and make an end of the transaction? A.—I was under that apprehension.

Q.—And Mr. Wood was under that apprehension? A.—Yes.

Q.—And Sir Mackenzie Bowell? A. —I am not sure about Sir Mackenzie Bowell.

Q.—Mr. Cox differed from you, and he must be right, as the resolution says? A.—Yes; we conceded that he must be right.

Q.—I suppose you would have to concede that, would not you, with the person that was in control of the company? A.—Absolutely so.

Q.—If the same transaction had happened with any person else who was not in control would you have given way on that item in that way? A.—It depends upon the person.

Q.—Why would you say that? A. —The question about his character and so forth.

Q.—You mean to say whether you think he is honest in the statement he is making as to what his understanding was? A.—The amount ultimately will come to the company, and it was not regarded as a serious matter.

Q.—As a matter of delay in payments? A.—Yes, more than anything else. We felt we were pretty well secured for these agents' advances by the security which we had, and also through the retention of these agents.

Q.—I see one of them has been repaid? A.—Yes, two have been repaid.

Q.—Then you have a paid-up policy? A.—And $200 has been re-paid on another one, and the amounts will be gradually reduced.

Q.—Did you show those items in your income and expenditure? A.—No, they would not show in the expenditure, the re-payments would show in the income.

Q.—The payment back at the beginning of the year would show in the income? A.—No, the re-payments of moneys earned by the agents and credited on their accounts would show as an income, it would go to reduce commission account, the general commission account of the company.

Q.—What I am saying is this, at the beginning of the year you say you would give a cheque to Mr. Cox, and at the end of the year he would give you a cheque? A.—Mr. Ames.

Q.—Yes; would those appear in your income and expenditure items? A. —No.

Q.—Why not? A.—The amount being paid out at the beginning of the year by the company and being received at the end of the year would balance one another; take 1902—

Q.—I think I follow you; the difference between the two items would be included in the ordinary transactions of the company during the year, that is the difference between the cheque at the beginning of the year and the cheques at the— A.—The cheque at the end of the year would be increased again by the—

Q.—By the regular transactions of the year? A.—Yes.

Q.—But the cheque at the end of the year would not be at all the same cheque as at the beginning of the year? A.—No. it would be the same as at the commencement of the next year.

Q.—If that is so the items should have been in the return? A.—I think strictly speaking they should.

Q.—There cannot be any question about it, can there? A.—No.

Q.—They were left I suppose just in the same way you have said, it was intended to get rid of those items for

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

the annual return? A.—Yes, and because we had that guarantee.

Q.—From Mr. Ames, during the time he was paying it, you were treating it as Mr. Ames taking up his liability at the end of the year? A.—Yes.

Q.—And commencing again at the beginning of the next year? A.—Yes.

Q.—And Mr. Cox took it up at the end of 1903, and as far as you are concerned you thought you were getting rid of it entirely? A.—Yes.

MR. KENT: I suppose had no return been necessary for the Government these transactions would never have taken place? A.—They might have continued until returns were required by the Government.

MR. TILLEY: And if none were ever required it would continue right along? A.—Right.

MR. KENT: Q.—Would it be fair to say it was juggling?

MR. TILLEY: Your Honor will be able to call it by its name when the time comes.

Q.—I suppose if it was not for the annual return there would have been no guarantee by Mr. Ames even? A.—Oh yes.

Q.—You think that was an arrangement that was made by Mr. Ames to raise the company in its initial work? A.—The guarantee by Mr. Ames was not made in the light of the Government return to Ottawa, but that guarantee was made to recoup the company in the event of loss by the agent. These advances were special advances, and we felt we could not as a company make the advances unless we did receive a guarantee for the return either from the agents or from Mr. Ames or some one.

Q.—Have you told us all the transactions that took place now with regard to these agents' balances? A.—That is all.

Q.—There have been no transactions you have not disclosed to us? A.—No.

Q.—Mr. Blake asked me to ask before leaving that subject what was the object of making these advances to agents? A.—The object as stated before was to retain in the company's services men who had proved valuable and profitable servants. If those had not been made to them there was a likelihood that they would have sought employment elsewhere, greatly to our detriment, through loss of business, loss of connection, and we felt that through their future earnings the company would be safe in making these advances.

Q.—You thought it was a safe loan and a proper loan for the company to make? A.—Yes, under such circumstances, and such as might be done by any other financial institution.

MR. BLAKE: That is, the injury it would have been to the company by letting these good agents go to other employment? A.—Yes.

MR. TILLEY: It was a serious effort on the part of the company to retain the agents? A.—Yes, they had met with some financial losses themselves of a personal character.

Q.—What was the financial standing, Mr. Blake asks me to ask, of Mr. Ames at the time that arrangement was entered into for some time afterward? A.—In 1901 it will be well known to all that Mr. Ames' financial standing was first-class; he was a man I think of unquestionable wealth, and also during 1902 and part of 1903.

Q.—Down to I think June, 1903? A.—May or June, and the guarantee therefore was not a flimsy guarantee, but was a guarantee of a very wealthy man at that time.

Q.—Have agents' balances anything to do with rebating, are we getting near rebating when we are talking of agents' balances? A.—Not these agents' balances.

Q.—In 1902 were any other advances or payments made by Mr. Ames to the company on account of the company's expenses? A.—Yes.

Q.—What nature was that transaction? A.—1902 there was an item of $35,000 paid into the company by Mr. Ames in order to assist in meeting some of the expenditures in connection with the company.

Q.—What nature would those expenditures be? A.—I will give you just an outline of the whole thing. There are amounts received in other years than that, and if you like I will give you the whole thing.

Q.—Yes? A.—The Hon. Mr. Cox, J. W. Flavelle and Mr. Ames in 1897 or at the commencement of 1898 very generously, acting all together, paid to the company from time to time, arranged to pay the company from time to time, moneys to assist in meeting some of the expenditures in connection with the establishment and the early history of the company. There was no obligation on the part of the company in connection with these amounts. The amounts were

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

paid into the company and it was left to the officers to determine to what expenses they should be applied in payment of or reduction. In 1898 the amount received was $7,000; in 1899, $10,000; in 1900, $5,000; 1901, $10,000; 1902, $35,000; 1903, $24,000. Since then no further amounts have been received. These amounts were received without, as I stated, any obligation whatever on the part of the company in connection with the same, and we regarded them as being the outcome of most generous action, and of a most friendly spirit on the part of these gentlemen.

Q.—The gentlemen were Hon. Senator Cox, Mr. Flavelle and Mr. Ames? A.—Yes.

Q.—The total of the payments would be how much? A.—$91,000 spread over a period of seven years.

Q.—Where would those sums be credited in the books of the company? A.—They would be credited in reduction of certain expenses like advertising, officers' salaries, agents' commissions, travelling expenses and various items of that character, expense items.

Q.—Have you the account here? A.—Yes.

Q.—Could I see it please? A.—Yes. In 1900 the amount of $5,000 was credited to officers' salaries.

Q.—And it was credited on what date? A.—December 31st when it was received.

MR. LANGMUIR: It was simply a credit in reduction? A.—Yes, lessened these expenditures so much.

MR. TILLEY: That entry was for 1900, probably we had better take the first 1897? A.—On December 30th, 1898, there was $7,000 received and that was credited to officers' salaries; on December 31st, 1899, the amount received was $10,000, and that was credited to officers' salaries. 1900, $5,000 received, and that was credited to officers' salaries; 1901, $10,000 received and credited to these accounts; agents' travelling expenses, $1,000; advertising, $500; printing and stationery, $1,500; expenses of Agents' Convention, $1,551.35; officers' salaries, $5,000; medical fees, $448.65. In 1902 there were $35,000 received, credit as dividend on stock, $1,664.39; agents' salaries, $1,740; commissions advanced to agents, $8,407.56; first year commission, $5,370; agents' travelling expense, $2,220; advertising, $776; general expenses, $478; postage, $663; printing and stationery, $2,431; officers' salaries, $7,315; rent and fuel, $1,362; taxes and licenses, $429; expenses of Agents' Convention, $1,341.05. In 1903 $24,000; commission advances, $1,203.73.

Q.—What does that mean, commission to agents? A.—Yes, it is not in connection with advances you referred to. Agents' salaries, $642; agents' expenses, $917.42. First year commission, $1,446; general expenses, $408.79; printing and stationery, $728.48; postage, $260; exchange, $27.78; taxes and licenses, $100.15; officers' salaries, $5,344.14; officers' expenses, $303.15; office furniture, $255.75; advertising, $175.76; rents, $221.89; insurance books and papers, $12.50; and petty disbursements of the following offices: Vancouver, $300; St. John, $200; Ottawa, $50; Winnipeg, $50; Edmonton, $100; Halifax, $100; London, $50; that is the last.

Q.—Would those items appear in your receipts and disbursements in the departmental returns? A.—They would go to reduce the expenses mentioned.

Q.—Then where the items of expense would appear in your return to the Government they were just so much less than they would have been had these items not been credited? A.—Yes.

Q.—But you did not show the receipt of the moneys in the income and the paying of it out in the expenditure? A.—No.

Q.—That should be done, should it not? A.—It was regarded that it was immaterial.

Q.—Why? A.—It was not considered at the time; it was money that was given to the company for a specific purpose and applied in that way.

Q.—You think that because it was a gift to the company rather than the company's real income that it was a thing that could possibly be treated in that way without being necessarily shown in the return? A.—Yes, it was a free gift.

Q.—It was not part of the insurance companys' returns or receipts, it was a pure gift to the company? A.—Yes, and the persons giving it had a right to indicate how they wished it applied.

Q.—The parties paying it would have the right to say, "I give you this money to reduce that item of so much that appears in your books"? A.—Yes.

MR. LANGMUIR: It showed expenditure that much less than it really was? A.—Yes.

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

MR. TILLEY: Q.—And I suppose it was done for the purpose of keeping down those expenditures? A.—It was an exceedingly generous act, a thing that has never been done in Canada before, and we feel proud of it, and whether it goes to reduce the expenses or treat it in any other way it was all done for the benefit of the policyholders—$91,000 paid for their benefit and for no one else's benefit.

Q.—Answer the question I ask you; it was paid for the purpose I suppose of keeping down those items of expense which are high in a new company by persons who have the interests of the company at heart, if you want to add that to it, but that was the object of the payment? A.—Yes.

Q.—The object of the payment was to keep down those items in the company's account? A.—Yes.

Q.—It was not paid in as a premium on stock? A.—No, no obligation whatever on the part of the company to return it.

Q.—And there was no call made by the company for it, because the company could not call for it? A.—It was a voluntary gift.

Q.—Was there any arrangement at the beginning of the year it should be paid, or was it paid at the 31st December when it was ascertained how large these items were? A.—Some time during the year it would be mentioned, I could not say whether it would be at the beginning or at the end, not likely at the end and not likely at the beginning.

Q.—Would it be fair to say that item would be discussed when items were creeping up? A.—I don't know.

Q.—You have no recollection about that? A.—No.

Q.—I suppose the subject of the company's expenses would be discussed very frequently by the persons interested in the company? A.—Yes, as all directors would discuss them from time to time in every business.

Q.—And I suppose in a young company it is one of the main objects to keep down these expenses as low as possible? A.—It has been our aim.

Q.—Each year the money would be paid in at the end of the year? A.—Yes.

Q.—And I suppose the same question that was propounded before would be proper there, if there had been no return required there would have been no payment in? A.—Most certainly there would have been, because we have to make a return to our shareholders and policyholders every year, and it is not for the purpose of any Government return, it was for the purpose of our financial statement independent of Government return.

Q.—You say it was a gift—

MR. LANGMUIR: An absolute gift and nothing more.

MR. TILLEY: An absolute gift made by these parties for the interest of the company? A.—Yes. There has been only one case in my recollection—I said there was none, but I do recollect of another case; I was reading a British Insurance Journal a short time ago and I came across a case where a gentleman had died and had left as a legacy to an insurance company a certain amount of money; that is the only parallel case.

Q.—Have there been any other payments made into the company than the ones you have told us about that are not disclosed in the ordinary returns or shown in the ordinary returns? A.—Not that I know of.

Q.—All the others are shown in the ordinary way? A.—Yes.

Q.—In the regular returns? A.—Yes.

Q.—Have there been any payments out made by the company to any of these parties who made the payments in to the company other than the returns to Mr. Ames and Mr. Cox you spoke about at the beginning of each year? A.—None whatever.

Q.—There has been no return made to any of the parties who paid in those $90,000? A.—Not one dollar.

Q.—Have you written up the values of any of the securities in your books? A.—We have re-valued our securities from time to time as other financial institutions have.

Q.—Sometimes writing them up and sometimes writing them down? A.—We have re-valued them, sometimes the values appear increased and sometimes decreased.

Q.—Have you any list of cases where you have re-valued them in that way? A.—Yes, they are all disclosed in the Government return.

Q.—There is an item of City of Kingston Debentures in 1897, when were they purchased, can you say? A.—1897.

Q.—What was paid for them? A.—This is the basis upon which they were valued.

Q.—In the column marked "basis" you have shown the basis on which they were valued, and opposite the City of Kingston Debentures you have $3\frac{1}{2}$ per cent.? A.—That indicates we valued that security on that basis.

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

Q.—On the basis of paying 3½ per cent.? A.—Yes.

Q.—How much did that raise the value of the security in your books? A.—$4,785.84.

Q.—It could not have been bought very long, because the company only commenced in 1897, and that would be re-valued at the end of the year? A.—Yes.

Q.—So that the market value of that security could not have been much more than paid for it? A.—Yes, we secured those debentures on very favorable terms; at the commencement of the company with the capital received we purchased considerable volume of securities and we got them at a very favorable rate. You will remember in 1897 the values of bonds and other like securities were high; at the end of the year we obtained the opinion of a responsible debenture broker, and it was on the basis of his opinion that we re-valued the security and placed that security at the amount at which it appears in our books. This is the opinion.

Q.—You produce a letter from a broker, December 31st, 1897, that he could sell those bonds for you at a basis of paying 3½ per cent. interest to the purchaser? A.—Yes; the brokerage firm was George A. Stimson & Company.

Q.—That appears to be a low rate of interest, but you explain it in that way? A.—Yes.

Q.—At that time it was a price that could be obtained at any rate? A.—Yes, Toronto Electric Light Bonds they were valued on the basis to yield 4.38, and that value was placed upon those bonds after receiving the advice of the same broker that they could be sold on that basis.

Q.—Is it not 4 per cent.? A.—It says between 4 and 4¼.

Q.—Have you written up any others to any amount? A.—Yes, not to any considerable amount. I will be glad to give them all. In 1898 the Canadian Northern Railway Land Grant Bonds were written up to 4 per cent basis. It is well known that that security is well worth the value on that basis. In 1903 another block of Canadian Northern Land Grant Bonds were written up to a 4 per cent. basis. The same year Toronto Electric Light Bonds were written up to 4¼ per cent. basis; the same year the Sao Paulo Tramway, Light & Power Bonds were re-valued at a 5 per cent. basis; in 1904 the Sao Paulo Tramway, Light & Power Bonds were revalued and the value cut down to a 5½ per cent. interest basis, and in the same year, the Electrical Development Bonds which we have placed in our books at $45,000, which included the stock which we received as a bonus for those bonds, were written down to a 6½ per cent. basis.

Q.—That was after you had some negotiation with the Insurance Department, was it, at Ottawa? A.—It may have been, I cannot recall that.

Q.—You had some negotiations with them, had you not, about some of these values? A.—I think the last two we had.

Q.—Did all the bonds that you wrote up stay that way on your books except as you have indicated? A.—Yes.

Q.—You have mentioned there Sao Paulo Bonds, do you regard those as a proper investment under the Insurance Act? A.—Yes.

Q.—By reason of what fact? A.—The Company being incorporated in Canada.

Q.—But it carries on its business outside of Canada, do you think under the Act the place of incorporation is what governs? A.—There is no question about it, because the Act simply refers to where the company is incorporated.

Q.—And it does not say, "And carrying on business in Canada," or "carrying on the main part of its business in Canada"? A.—No.

Q.—Is that in your opinion a proper way to have that provision with regard to the company, do you think it is incorporation that ought to govern? A.—No, I do not.

Q.—Would you think if a line is to be drawn at Canadian companies and other companies that Sao Paulo Company should be treated as an outside company? A.—I do not quite appreciate your question.

Q.—That is if an insurance company is to loan on Canadian companies should the Act in your opinion be worded so as to cut out such a company as the Sao Paulo Company? A.—If that is the intention.

Q.—When did you first become interested in Sao Paulo either by purchase or loans? A.—In March, 1901.

Q.—Tell me what transaction took place then? A.—I think it was a loan on the security—it is March 30th, 1901.

Q.—A loan of $70,000 on Sao Paulo Tramway Light & Power Company? A.—Yes.

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—The par value of the bonds was $140,000, and the amount of the loan was $70,000, and the loan was made through the National Trust Company? A.—It was made through the National Trust Company to the Sao Paulo Company.

Q.—I see the rate of interest there is 6 per cent. plus one per cent. commission? A.—Yes, 7 per cent.

Q.—Did you get that one per cent. commision each year that the loan was on your books? A.—Yes, each year.

Q.—So that you were getting in reality for that loan 7 per cent. interest? A.—Yes.

Q.—Those $140,000 of bonds would be a portion of a block of Sao Paulo bouds that was mentioned the other day in connection with the Canada Life, I suppose, where certain parties had agreed to guarantee a loan on two millions of bonds? A.—Yes, the very same transaction.

Q.—These parties had agreed to guarantee the loan, and then through the National Trust Company the trans action was carried out? A.—Yes.

Q.—The parties themselves getting one per cent. commission on the loan, and the National Trust Company, as we learned, getting four per cent., acting in the capacity it did, as trustee? A.—That is the first time I have heard that.

Q.—I thought that was mentioned the other day; you then made part of this loan through the National Trust Company in their capacity of procuring this loan for the Sao Paulo? A.—Yes.

Q.—And you got part of some person's commission? A.—We got 7 per cent. altogether.

Q.—And you did not know, you say, where the one per cent. commission came from? A.—No; we never inquired into that; I do not know whether we knew or not.

Q.—You were suspicious anyway where that would come from? A.—I could not say.

Q.—Did you know of Mr. Flavelle's connection with that loan? A.—No, only in the capacity of President of the National Trust Company.

Q.—That loan was made in March, 1901, was there any other loan made by you at the same time? A.—No; excuse me, that loan to the Sao Paulo Company was made on December 19th, 1900. The loan to which you refer as having been made in March, 1901, is the next one, the one below that.

Q.—The loan to the Sao Paulo Company was on December, 1900? A.—Yes.

Q.—And then the next transaction was an additional loan? A.—Yes, an additional loan to the National Trust Company, on the 2nd January, 1901, of $70,000; thus making the total loan $100,000.

Q.—When the $30,000 was advanced was it agreed to advance $70,000 more? A.—Yes.

Q.—Why was it not all one transaction, do you remember? A.—We had not funds at the time; the two transactions were welded into one in subsequent years.

Q.—You loaned in that same year 1901 $50,000 on those bonds, amounting to $56,000, to Mr. Flavelle? A.—With the security of $56,000 in stock.

Q.—Just tell what that transaction was, because I think there was some other privilege to the company in connection with that? A.—Yes; on March 30th, 1901, Mr. J. W. Flavelle, not then being a director of the Imperial Life, was loaned $50,000 at 5½ per cent. on $50,000 of Sao Paulo Tramway, Light & Power Company 5 per cent. first mortgage debentures, and 566 shares par value, $56,600 of the same company. The market prices of these securities amounted to $87,500. The loan was made with the option of purchasing the bonds at $90,000 with bonus of $10,000 of stock, providing such option was exercised on or before 15th December, 1901. The option was not then exercised. A renewal of the loan was made for one year from the 15th December, 1901, at 5½ per cent. on the same security with the option to the company to purchase the bonds at 90 and accrued interest on or before 15th December, 1902, accompanied by a bonus of $7,500 of stock. This loan was paid off on the 2nd July, 1902, about five months before it matured, and the company exercised at that time the option in respect of the stock. The shares were sold for $7,912.50, being at 105 to 106¼, and they were carried to profit on investment; the bonds were retained by the company and carried as an investment.

Q.—So that the loan to Mr. Flavelle was made on March 30th, 1901, and the loan through the National Trust Company to the Sao Paulo direct was made in December and January previous, two or three months before? A.—Yes.

Q.—The loan of $100,000 was amply secured I suppose? A.—By $200,-

000 of bonds, the guarantee of the Sao Paulo Company.

Q.—And the guarantee of the National Trust Company? A.—Yes.

Q.—Behind the National Trust Company there were other guarantors? A.—Yes.

Q.—You knew that at the time? A.—Yes.

Q.—I suppose you could have loaned as much more as you wanted to on Sao Paulo bonds in that year 1901 of that issue of two million dollars of bonds? A.—We would have been very glad to have done so if we had the funds; we had no knowledge whatever of a two million dollar loan though.

Q.—One million dollar loan on two millions of bonds? A.—I have no knowledge of any other loan than the $100,000 loan to us.

Q.—What occurred to me was you were loaning on the same bonds within a very short time at seven and at five and a half per cent? A.—Yes.

Q.—With equal security? A.—Yes.

MR. LANGMUIR: You say the rate was six per cent. and one per cent. commission? A.—Yes.

MR. TILLEY: You got the seven per cent. each year? A.—Yes, we got seven per cent. each year.

Q.—So that it was not a commission of one per cent. on the original advance? A.—It was a seven per cent. investment to the company.

Q.—What I was suggesting, and you can correct me if I am wrong, was you could have loaned more if you had wanted to at the seven per cent. rate on the same security? A.—Not that I know of.

Q.—You did not know that? A.—No.

Q.—Mr. Morrow says that that first one was over-subscribed, but you afterwards loaned to the National Trust or Sao Paulo in the next year, again getting seven per cent. return at any rate? A.—Yes.

Q.—Would not that indicate to the Commission that that was not a security that had met with a very good reception at that time, and that a better rate for instance than five and a half per cent. could have been obtained on that security? A.—From Mr. Flavelle?

Q.—Yes? A.—No, it was a very common rate for loans of that character, the interest rate of seven per cent. was an exceptional rate.

Q.—It was not any more than they found themselves obliged to pay? A.—We did not know that; we felt very happy in securing seven per cent. investment; we thought it was a windfall.

MR. BLAKE: He had only bonds in one case and bonds and stock in the other.

MR. TILLEY: Had you bonds only in one case? A.—Yes.

Q.—And bonds and stock in the other? A.—Yes. but the bonds in one case amounted to double the amount of the loan, and the stock and bonds were only about double of the amount; the seven per cent. loan was equally as good as the security on the other.

Q.—It was in reality better, I suppose? A.—I think better.

Q.—Better security on the seven per cent. loan? A.—Yes.

Q.—You bring that out so freely that it almost seems as though it were quite right that the seven per cent. was all you could get of it at that time, that you were getting all you could—

MR. BLAKE: And five and a half.

MR. TILLEY: And the five and a half all you could? A.—Yes.

Q.—At the end of the year 1900—? A.—I might just say in that same year, to indicate that the rate of interest which we were charging Mr. Flavelle was the maximum rate for such a loan that we had made other call loans on somewhat similar security at the rate of only five per cent., which was then regarded as a maximum rate.

Q.—I do not think I would have said anything about the rate he paid had the other transaction not been so close to it, and on the same security; all you say is the seven per cent. one was just that much better? A.—Yes.

Q.—That the other one was a good one? A.—Yes.

Q.—At the end of the year 1900 you had a loan on Sao Paulo of $30,000, hadn't you? A.—Yes.

Q.—Was that shown in your annual return? A.—Yes.

Q.—(Reads from blue-book); "The amount of loan secured by bonds, stock, and other marketable collaterals, $30,000"—was that the way it was entered, or was the collateral shown? A.—That is the way it was entered.

Q.—The collateral was not shown at that time? A.—No, there does not seem to be any slip here indicating that—oh yes, there is, there are full particulars given of it here; this is a copy of the returns made to the government; you see there is no room there.

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—You say that loan in 1901 was on January 2nd, 1901? A.—Yes sir.

Q.—Was it a time loan or a call loan? A.—It was a loan made to be repaid on the 31st December, 1901.

Q.—Was it specially stipulated it should be paid on the 31st December? A.—I have the agreement here.

Q.—The agreement is dated 19th December, 1900, as to the $30,000 and is dated 2nd January, 1901, as to the $70,000; they are both on the printed form, and show that the obligation to repay was as follows: "To repay the said sum at the expiration of one year from the day the said investment was made with interest payable half-yearly at six per cent. per annum as well after as before default"—that first loan would mature on the 19th December, 1901, and the second one on the 2nd January, 1902? A.—Yes.

Q.—Have you the account here showing that loan? A.—(Produces investment ledger). We did not keep an investment ledger before this.

Q.—You produce the investment ledger of the company? A.—Yes.

Q.—Prior to the use of this ledger how was it? A.—Through the general ledger of the company. The investments were small, and we did not then go to the expense of providing ourselves with an investment ledger.

Q.—This appears on January, 1902, to transfer $64.11—what did that mean? A.—This is the interest column you are looking at; it is a small adjustment of interest.

Q.—That is some amount of interest that was left outstanling the end of 1901 I suppose; and then on the second there is a cheque for $100,000, so that would be a payment out to the National Trust Company of $100,000 on January 2nd? A.—Yes; that is a renewal of the loan.

Q.—Had you on December 31st received a cheque of the National Trust Company for that amount? A.—We had.

Q.—How was it arranged you should get that on December 31st? A.—The time that the loan was first made it was arranged that we should receive repayment of the loan at the end of the year, it was expressly stipulated when making the loan that for the purposes of our bank account, not knowing anything of the condition it might be at the end of the year that the loan should be repaid on the 31st December. It often happens in loan companies, life companies and other investment companies that investments are made in anticipation of income, and we did not desire if it did happen that we had anticipated our income at the end of the year that our bank account should show an overdraft; as a matter of fact at the end of 1902 we would have had an overdraft if the loan had not been repaid on the 31st December.

Q.—How about 1901? A.—We had a small balance, and also in 1903.

Q.—Who made that arrangement? A.—I did.

Q.—Although the printed contract says for a year you actually arranged that you should get the money back on the 31st December? A.—Yes.

Q.—Was that stipulated if you wanted it, or was it baldly put, it must be paid? A.—It must be re-paid at the end of the year.

Q.—Have you given us the whole reason for that, or was the annual return to the government part of the reason? A.—The annual return to the government had absolutely no connection with it; we had returned to the government in previous years part of the loan to the Sao Paulo Company, there is no reason whatever to hide it, it was a legal investment, and we were well within our rights.

Q.—When thinking of the annual return to the government would it be in any way because you would not care to show so much money on that kind of security? A.—No; we have carried in our books for years the security of the Sao Paulo Tramway, Light & Power Company.

Q.—I am suggesting that might be a reason why you would not want to carry any more than what you were showing in your books? A.—No, we have never been ashamed of the security.

Q.—Did you at the end of the year 1901 when you found your balance was on the right side, let the loan run on? A.—We secured the return of the loan at the end of each year.

Q.—Did you agree at the end of each year to renew it for the next year? A.—We did sometime prior to the close of the year.

Q.—If your balance in the bank was right, and if you had agreed to renew it, why was it not just left standing instead of passing a cheque back, and you issue your cheque the beginning of the next year? A.—We desired the arrangement as originally made carried out.

Q.—Why? A.—As a matter of understanding, and for the further rea-

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

son that at the beginning of each year we secured a commission of one per cent. for the renewal of the loan.

Q.—That is the one per cent. commission you spoke of before, you would get six per cent. interest and one per cent. commission? A.—Yes.

Q.—And by making it a definite renewal each year it gave you an opportunity to enforce the one per cent. commission? A.—Yes.

Q.—But that had been all agreed upon before the end of the year? A.—Yes.

Q.—And it occurs to me if that was all arranged that the account could have been left as it was without transferring cheques? A.—It could have been, but we did not desire it.

Q.—You have given us the whole explanation? A.—Yes.

Q.—The transaction was carried through in identically the same way at the end of 1902 and at the end of 1903, and it was paid off in 1904? A.—Yes.

Q.—And in 1903 the balance in the bank was in that shape that you needed that money to make it right? A.—Yes.

Q.—Mr. Flavelle's loan was made in 1901, and when was it paid off? A.—You have the memorandum there, Mr. Tilley.

Q.—You say made in 1901? A.—I think in July, 1902.

Q.—At the end of 1901 was the loan to Mr. Flavelle on that stock shown in the blue book? A.—No, it was not.

Q.—Why not? A.—It was repaid to us on December 31st.

Q.—Why was that done? A.—I do not know why that was done.

Q.—Mr. Blake was suggesting something about the department, the pernickettiness of the officer of the department? A.—I cannot tell you why that was done; it was repaid on December 31st, 1901, by a cheque received from Mr. Flavelle.

Q.—Mr. Flavelle gave you his cheque on the 31st December, 1901? A.—Which we deposited in our bank on that date and we returned the amount on the 2nd January, 1902.

Q.—When did you give him the cheque? A.—On 2nd January, 1902.

Q.—Not on the 31st December? A.—No.

Q.—It was not deposited on the 31st December? A.—No.

Q.—That loan was at that time a current loan, it was not upon the same as the National Trust and Sao Paulo? A.—No, it had no connection with it.

Q.—There was no such arrangement as you spoke of with regard to the loan through the National Trust Co.? A.—No.

Q.—Did you arrange to get the cheque at the end of that year? A.—I have been trying to recollect the circumstances and my memory will not carry me that far back, I cannot say anything further about it than that. The records show it was repaid on the 31st December, and we re-made the loan on the 2nd January, 1902.

Q.—You can put it this way, I suppose, that there is nothing you can suggest that affords a reason for that except the annual return? A.—I would not suggest that reason.

Q.—Is there any other reason? A.—I would not suggest that reason.

Q.—Let us eliminate that, you cannot suggest any reason? A.—No.

Q.—Eliminating that you cannot suggest any reason? A.—I cannot suggest any reason.

Q.—Was there any other loan that you were carrying at the end of that year that was treated in the same way? A.—I did not know that this was treated in this way till I looked it up yesterday.

Q.—You knew it the same day I knew it? A.—It is not the practice of the company to have loans repaid on a special date for special purposes, such as the evasion of the Government return.

Q.—Let me ask you this, have you been making inquiry from any person else about that transaction? A.—No.

Q.—There would be no person else in your office that would be able to give you that information? A.—No, I inquired from those in the office when I saw that, I was not able to get any information.

Q.—In the natural order probably you would not expect any person to be able to give you that information because it would be a transaction, would it, that you would be attending to yourself? A.—Well, the assistant-secretary, Mr. Pickett, might know about it.

Q.—Mr. Pickett would hardly do anything without consultation with you about it? A.—No.

Q.—So that you ought to remember it? A.—I should know all about it.

Q.—But you say you cannot bring it back to memory at all? A.—There are a great number of transactions in the year.

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—Not of that kind? A.—Well, some of a similar kind, not exactly on the date to which you refer, but running through the year; there are a great number of transactions of a financial character, and it is impossible to remember the reason why a loan was made to-day and re-paid to-morrow.

Q.—That loan, I just point out once more, was made on the 19th December, 1901, was it a call loan or time loan? A.—No, it was a time loan.

Q.—So that it was for a year, and that would be bringing it in during the year—

MR. BLAKE: It was for a distinct period.

MR. TILLEY: I think it was on the agreement, Mr. Bradshaw— A. —I have to put all the facts before you.

Q.—I think you stated that, and that is what I gathered from the minutes, that it was a transaction whereby the loan was for a certain time, a year, and there was an option on the stock for the year up to 19th December, 1902? A.—Yes.

Q.—So that it was a current transaction at the end of the year; did you answer the question as to whether there were any other loans that existed at that time that were treated in the same or any similar manner? A.—Not that I know of.

Q.—At the end of 1901? A.—Or at the end of any year.

Q.—Everything of that nature is embraced in the two Sao Paulo transactions, and you have explained all there is to be said about those two? A.—Yes.

Q.—Then there was a transaction in 1903 which is referred to in the minutes of your company regarding that loan of $152,756.87; have you personal knowledge of that transaction? A.—Yes.

Q.—Where is it first referred to in the minutes—I think it is referred to at page 614 (Of the company's return to questions sent out by Commission)? A.—Yes.

Q.—There the transaction reads this way: "The Purchase of the under-mentioned shares was approved, 234 British America at 85, $9,945; 736 Western Assurance at 85, $25,024; 500 Ontario Bank at $121.76, $60,-881.86; 250 Dominion Coal at 72 2-3, $18,165.34; 430 Twin City at 90, $38,-742.67, total $152,758.87—that shows in the minutes a purchase of those stocks on that date? A.—Yes.

Q.—Of those stocks Dominion Coal and Twin City were unauthorized? A.—Yes.

Q.—I think the date of that was June 1st, 1903? A.—Yes.

Q.—Was that the first unauthorized stocks the company had purchased, do you know? A.—No.

Q.—What previous had you purchased? A.—We had loaned in October, 1902, on the bonds of the Dominion Iron & Steel Company, the shares of the Dominion Coal Co. in the early part of 1903, we had purchased the bonds of the Canada Atlantic Railway Company in 1903; and we had purchased the bonds of the Dominion Iron & Steel Company, 1903, previous to that.

Q.—You I suppose were entirely of the opinion at this time that Dominion Coal and Twin City so far as your company was concerned was unauthorized? A.—Yes.

Q.—There was no question that could be raised about those, you were not then carrying on business in the United States? A.—No.

Q.—And would have no authority to invest in an electric railway there; now was that transaction entered in your books at that time? A.—As a purchase.

Q.—How would that be shown? A. —I can show you the entry in the book. (Shows entry in book). Each one was entered.

Q.—Each security would be entered on a separate page in the investment ledger number one? A.—Yes.

Q.—And, for instance, Twin City Rapid Transit Company appears at page 64. It is headed, "Description of security, 430 fully paid shares of common stock, par value $100, certificate numbers so-and-so, 400, certificate number—30 shares, 30, making 430 shares. It gives par value, rate of interest, and where it is payable, and the amount for which it is purchased, yielding a certain rate; these yield 5.55 per cent; that is an account that you keep where you buy the security and not where you loan it? A. —Yes, stocks owned.

Q.—And then you have another portion of the same book for loans on stocks and bonds? A.—Yes.

Q.—The first entry here is 1903, June 10th, to cheque, anl there is a debit item of $11,700, and then an item of $27,042.67 on June 12th, and then on June 26th there is a transfer to folio 64, $38,742.67? A.—It was very shortly after the transactions recorded

in the minute book of the company.

Q.—Apparently the transaction was recorded on June 1st? A.—In error.

Q.—I was now fixing the date? A. —Yes, June 1st.

Q.—And then it appears here as June 10th, then June 12th, and June 26th? A.—Yes.

Q.—On June 26th where was it transferred to? A.—To this account, which embraces all of the securities contained—

Q.—Instead of making it a separate account on page 64, it was put in another account on page 65, special investment account? A.—Yes.

Q.—And does that contain all the items I have spoken of? A.—Yes.

Q.—And that is still an account for stocks purchased? A.—It was closed up before the end of 1903 by sales of certain securities.

Q.—I was simply asking you that, that that is an account in the books as stocks you own? A.—Yes.

Q.—And the mistake you referred to a moment ago was that the mistake of entering each one of these under a separate heading? A.—No, the mistake was of entering it as a purchase whereas it should have been entered as a loan in accordance with the terms of the agreement that was entered into at the time, and it was passed at the meeting in question, which we had better show you. I thought I had the agreement, but I find I have not got it here. I will endeavor to get it for you.

Q.—What do you say, that on that first day of December there was a written agreement? A.—At the meeting at which the minute is recorded.

Q.—That is the minute June 1st, 1903? A.—Yes; there was an agreement submitted referring to the transaction. The agreement was signed by Hon. Mr. Cox. These shares were shares of Mr. Ames and Mr. Cox, instead of making the loan to Mr. Ames, the loan was made to Mr. Ames and guaranteed by Senator Cox through this agreement that I refer to, and the agreement goes on to recite that these stocks are to be re-sold from time to time on Mr. Cox's instructions, and the amounts to be credited on account of the loan. The loan was to be for two years or less according as the stocks were disposed of. The agreement called for a payment of interest on the loan, outstanding balance of the loan, 6 per cent.

Q.—You say that that agreement was signed, sealed and executed on the 1st June? A.—It was signed, I am not quite sure about sealing.

Q.—Signed and executed? A.—Yes, on the first June submitted to the meeting and initialed by the Chairman. I thought I had the agreement here, but I am mistaken in that.

Q.—The persons present at that meeting are Dr. Eccles, Hon. S. C. Wood, H. N. Baird, Mr. Ames and yourself? A.—Yes.

Q.—The meeting of the Executive Committee on June 1st, 1903? A.—Yes. If you refer to the minute of December 30th, 1903, you will observe that there is a minute correcting the minute entered on the books on the 1st June, 1903.

Q.—The minute you now refer to reads this way: "Authority was granted to amend a minute under date of June 1st, 1903, and set forth on page 356 of the Minute Book as follows: Instead of the minute reading thus, 'the purchase of the undermentioned shares was approved.'" And then the minute sets out those shares that I read before and the resolution goes on to say:—"The minute to read as follows: 'loan to Hon. G. A. Cox at 6 per cent. of $152,768.87 on the security of the following stock.'" And then it sets out the stocks, giving the number of shares, the price and the total just as it did for the purchase? A.—Yes.

Q.—It says, "Loan to the Hon. G. A. Cox of $152,768.87 was reported to have been paid with interest?" A. —Yes.

Q.—So that the entries in the books with respect to the note of the transaction were altered after the stocks had been sold and the loan repaid in that way? A.—That is when the minute was entered. At the same time the company treated the transaction as a loan, a few days after the loan had been made.

MR. BLAKE: Senator Cox himself within 21 days began to sell these very securities.

MR. LANGMUIR: Did you consider it a purchase yourself? A.—I did not. I knew it was a loan because I had before me at that meeting the agreement of Senator Cox, which agreement fully sets forth that the transaction was a loan and not a purchase by the company.

MR. BLAKE: And it guaranteed his payment of it? A.—Yes, these

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

stocks were Mr. Ames' stocks and we did not care to make the loan to Mr. Ames at that time. We did make the loan on the guarantee of Senator Cox. It was a clerical error in recording the minutes.

MR. TILLEY: Do you say that from the commencement of that transaction down to the end it was never regarded as a purchase in your office by any person? A.—I cannot say by any person. I can only say by the officers of the company.

Q.—Any person who had a part in the negotiation? A.—None whatever.

Q.—It was from the first a loan to Mr. Cox so far as the executive officers of the Association treated it? A.—Yes, it is one of those things that will happen in any office or at any meeting. A clerical error was made.

MR. MALONE: It was not a loan to Mr. Cox, it was guaranteed by him.

MR. BLAKE: It was guaranteed by Mr. Cox and is it not the case that within 21 days he began himself to sell these securities? A.—Yes.

MR. TILLEY: Let us see just what it is. Here is the resolution that was carefully drawn to fix it right? A.—Yes.

Q.—And this says, "loan to the Hon. G. A. Cox at 6 per cent?" A.—Because he signed the loan agreement.

Q.—So far as the Imperial was concerned, it was a loan to Mr. Cox? A.—The securities were Mr. Ames' securities. We knew that, and instead of granting the loan to Mr. Ames as we were asked to do, we made the loan to Senator Cox.

Q.—Then the loan was to Senator Cox? A.—On Mr. Ames' securities.

Q.—So that Mr. Ames put in the securities and Mr. Cox hypothecated them with you by signing the hypothecation contract? A.—Yes.

Q.—Was that an ordinary form of hypothecation contract? A.—No, it is the special agreement to which I referred.

Q.—Have you any form of hypothecation contract that you use? A.—Yes.

Q.—It was not used in this case? A.—No.

Q.—Why would not that be used as well as this contract? A.—Because it would not be applicable to the case.

Q.—Were there any special provisions in the contract except what you have told us about? A.—No, those are the main provisions. If there were any special provisions I cannot recall them.

Q.—Mr. Blake suggested that Mr. Cox immediately afterwards or almost immediately afterwards commenced selling these securities? A.—Yes, I think on the 26th day of June, or about 24 days after the loan was made. Some of these were sold on the 24th of June.

Q.—By whom? A.—By the company on the instructions of Senator Cox.

Q.—Sold through whom? A.—Brokers.

Q.—Various brokers? A.—Yes, you will see the names here.

Q.—Then during 1903 were all the shares sold? A.—All of them.

Q.—Did they appreciate after they came into your possession or were they sold at prices at which they stood in the market when you received them? A.—I would like to make an explanation there. As a further evidence that the transaction on its face was a loan and not a purchase, the securities at the time had a market value of $170,480, whereas the amount loaned on them was but $152,000. We did not notice the trend of the market as the securities were sold, because we were not interested in that. We sold on instructions, always receiving, when we released the stock, the amount at least that we loaned against such stock.

Q.—How did you receive your instructions, verbally or by letter? A.—Verbally.

Q.—From day to day as a sale would be made, I mean, or was it a general authority to sell? A.—No, from time to time.

Q.—And you say that an agreement which you can produce was actually entered into on June 1st? A.—Yes, and was presented at the meeting and signed by the Chairman, at the meeting on the date at which the meeting was held.

Q.—And there was never any change in the arrangement from that day on? A.—No.

Q.—When was that account closed out? A.—The 29th of December.

Q.—1903? A.—Yes, the same year.

Q.—By all the stocks being sold? A.—Yes.

Q.—And what was the amount that was in your hands at the end of that transaction after paying the loan? A.—$6,261.47.

Q.—So that there was some $6,000 in your hands at the end of that transaction? A.—Yes, after taking credit for the interest of the loan.

38th day, June 8th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

Q —How long did that remain on your hands? A.—No length of time.

Q.—When was it paid out? A.—The same day that the last transaction was made.

Q.—Before or after this resolution? A.—What is the date of the resolution?

Q.—I think it is the 30th day of December, 1903? A.—I cannot say the date.

Q.—Won't your books show? A.—The 29th December.

Q.—On the 29th December the cheque for the balance was given? A.—Yes.

Q.—Had you up to the 29th December kept in your books the whole proceeds of the sales of the securities? A.—Yes, we had.

Q.—No money had passed through Senator Cox's hands or remained with him? A.—No.

Q.—Then who was that money paid to, Senator Cox, or Mr. Ames? A.—Senator Cox.

Q.—By a cheque of the company to him on the 29th December? A.—Yes.

Q.—Then why was it, if the fact be as you say, that it was originally a loan, that it was not entered that way when you found the first mistake and carried into the "stocks loaned upon" part of the book? A.—You will notice the heading of this: it is called "special investment account."

Q.—Can you say why that was still continued in the portion of the book that was used for stocks owned rather than stocks loaned on? A.—It has been said that it was for the purpose of convenience. The transaction was a large one and the pages in the other part of the book were not suitable for the keeping of the account.

Q.—When did you first know that this mistake was made? A.—Immediately that the transaction had gone through.

Q.—When do you say that it went through, then? A.—June 1st, 1903.

Q.—You knew then that the minutes were wrong? A.—No, no, I did not know that the minutes were wrong.

Q.—When did you first know that there was something wrong about the transaction, either in the method of keeping the books or in the resolution that was in the minutes, when did you first know that something had gone wrong? A.—Nothing had gone wrong so far as the company was concerned.

Q.—A resolution had to be amended? A.—You will find several resolutions amended in our books. It happens in every company.

Q.—I am not saying it does not, but when did you first find there was some mistake or something wrong with this? A.—I cannot tell you.

MR. BLAKE: Did not the auditors call your attention to it? A.—Yes, they did. That was in December. "The minute of December 30th, 1903, amending the minute of June 1st, 1903, was made, it is believed, when the auditors directed the attention of the company to the error in the last mentioned minutes." The corrected minute should have been passed at the meeting immediately preceding that of June 1st, 1903, but it appears to have escaped notice until the auditors directed attention to the error. It is the practice of the auditors to call attention before the close of the year to any clerical errors noticed by them in the minutes.

MR. TILLEY: Who prepared this statement of the transaction? A.—I have.

Q.—Why do you say there "it is believed?" Have you any recollection of it at all or is that the sort of thing you would expect to have happening and therefore put it in that way, you do not say absolutely that that was the way it happened? A.—I may have known the mistake in the minute some time prior to December 30th, 1903, and it may be that I should have called attention to it.

Q.—Did you know about it before? A.—I cannot tell.

Q.—Then you cannot in any way indicate how this mistake was discovered? A.—Unless it was by the auditors.

Q.—Although you do say you may have known about it before? A.—I may have known about it before.

Q.—Did you enter up the minutes in the Minute Book? A.—No.

Q.—Who does enter them? A.—A clerk in the office.

Q.—From what? A.—From the Agenda.

Q.—Have you the Agenda Book here? A.—No.

Q.—Would there be anything in the Agenda Book that would relate to that? A.—The minutes are an exact copy of the agenda.

Q.—Then that Agenda Book would be a book in which the entries would be made by Mr. Ames? A.—Yes.

Q.—Because he was the Chairman of that meeting? A.—Yes.

Q.—Then I think we should have the Agenda Book and the agreement in or-

38th day, June 8th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

der to make the records of the transaction complete. Can we get them this afternoon, because I would like to close that transaction? A.—I think so.

Q.—Then, on the same date, December 31st, 1903, there is an entry in the Minutes:—"authority was granted to purchase $50,000 debentures of the Toronto Savings and Loan Company debentures bearing interest at 4 per cent. yearly as follows, $20,000 to mature 1st July, 1907; $20,000 to mature 1st July, 1908, and $10,000 to mature 1st July, 1906, the purchases to date from the 21st day of May, 1903, with the guarantee of the Hon. Mr. Cox that an additional 2 per cent. interest half yearly shall be paid on such debentures." That transaction appears perfectly clear in the minutes, that the company was buying the debentures at a rate that would pay the company 6 per cent. interest. That was the idea, was it? A.—Yes.

Q.—Then the next minute relating to that was on what date, do you remember? I think it was page 330 of the other book. The entry that I have just read is from the minutes of the meeting of December 30th, 1903, which was the same meeting that I referred to before. Now the next minute relating to that is recorded in the Executive Committee Minutes of December 29th, 1905, page 330. The persons present at this meeting of 1905 were, the Vice-President, S. C. Wood; Mr. Eccles, Mr. Malone, Mr. Morrow, Mr. Moore, the Managing Director, and the Secretary. I see this resolution there:—"Moved by Mr. Wood, seconded by Mr. Moore, that the 2 per cent. charged in addition to the 4 per cent. on the Toronto Savings and Loan Company's debentures of $50,000, amounting to $2,000, be written off; that the 2 per cent. be not charged since December 31st, 1904, and that 4 per cent. be the rate of interest claimed in the future. Carried." Will you explain that transaction? A.—In regard to the rate of interest?

Q.—Well, that is the thing that stands out prominently in that resolution, that a certain rate was agreed on when the debentures were purchased, an additional 2 per cent. to be paid by Mr. Cox, in December, 1903, and then at the end of 1905 $2,000 of this surplus interest was written off, representing the surplus from the end of 1904. A.—At the time these debentures were purchased the company had an overdraft at the Bank and it was paying 6 per cent. on that overdraft.

Q.—You are speaking now of the insurance company, not the provident company? A.—The Imperial Life. And in taking these debentures the directors stipulated with Senator Cox that there would be 6 per cent. paid, 4 per cent. on the debentures and 2 per cent. additional. That interest was paid up to the end of 1904. After that Senator Cox thought that that extra rate of interest should not continue.

Q.—When did that first come up for discussion, that that should not continue? A.—When the half year's interest on the debentures fell due in 1905, I think about the 1st of July, The question came up at the time that the interest fell due.

Q.—Some time earlier than this second resolution? A.—Yes, and the amount of the extra interest was not paid then. It was allowed to stand, and at the close of the year the directors in reviewing the transaction decided that they would cancel the extra 2 per cent.

Q.—Do I understand that the transaction worked out this way, that in 1904 Senator Cox paid the bonus interest of 2 per cent. during the whole of 1904? A.—Yes.

Q.—It was actually paid? A.—Yes.

Q.—And received by the company? A.—Yes.

Q.—No complaint or discussion of the transaction then as to making any change? A.—No.

Q.—Then at the end of the next payment period, under the debentures of the Toronto Loan Company, Senator Cox thought he should be relieved from this 2 per cent? A.—From that obligation.

Q.—He not only thought he should be relieved of the obligation, to pay what was then due, but he suggested that he should have returned to him the money, the 2 per cent. that he had paid during 1904? A.—No, there is no suggestion of that character made. Nor was the money repaid to him.

Q.—I thought this read so? A.—Since December 30th, 1904, I think. To be not charged since the 31st December. The 2 per cent. applied only until the 31st December, 1904, but not after that date.

Q.—What was the $2,000 that was to be written off? A.—That was the amount of the 2 per cent.—no, that is an error that I have made. That

38th day, June 8th, 1906.

$2,000 referred to the interest from the 31st December, 1903.

Q.—I had it in my mind that it was another year besides that half year? A.—Yes, that was it.

Q.—Then see if we understand it now. There has been a year's interest at the rate of 2 per cent. bonus paid that he was getting back? A.—It had not been paid, it had been allowed to accumulate.

Q.—Have you the account here? A. There is no entry made of that extra 2 per cent. in our books.

Q.—That account does not seem just to show it as clearly as you rather expected? A.—No.

Q.—You will probaby get a statement of that by Monday morning, and let us have that agreement and the Agenda Book? A.—Yes.

(At 4.30 p.m. on Friday, 8th June, adjourned to Monday, 11th June, 1906, at 10.30 a.m.)

THIRTY-NINTH DAY.

MORNING SESSION.

Toronto, Monday, June 11, 1906.

—Examination of Mr. Bradshaw continued:

MR. BRADSHAW: Before proceeding may I make a short statement?

MR. TILLEY: Yes. A.—There is one matter to which I would like to refer, which, judging from some of the newspaper reports, was not fully seized by the representatives of the press, of which I myself must have been at fault in making very clear. During the time that Mr. Flavelle held the fiduciary position of Vice-President and Director of the Imperial Life he never sought or received a loan from it. The loan was made to Mr. Flavelle, $50,000, secured by bonds and stocks, the market value of which was about $80,000, and carried with it an option to the company to purchase the bonds loaned upon, together with the bonus of part of the stock. This option was exercised by the company, and yielded the company in addition to the interest of 5½ per cent. on that loan a cash profit of $7,912. The loan was made to Mr. Flavelle after he ceased to hold an office with the Imperial Life. I would like the representatives of the Press to be good enough to see that this statement is given due prominence in their reports.

(Imperial Life, T. Bradshaw, Ex'd.)

Q.—I think that is just repeating what you said on Friday, because I think you made it abundantly clear then that Mr. Flavelle at the time that loan was made to him had ceased to be an officer of the company or to take that active interest in the company you had spoken of before? A.—Yes.

Q.—Does that complete what you wanted to say? A.—Yes.

Q.—Then you were to go into the accounts relating to the loan on the shares of Ames & Company, and you were to produce the agreement, this is the agreement, is it? A.—Yes, that is the original agreement.

Q.—Do you desire to keep the original, is it any further use to you? A.—The transaction has been terminated in 1903, but we of course like to keep the original documents.

Q.—There are some memoranda on this original, and I think we had better put the original in? A.—Very well. (Agreement marked Exhibit 221.)

Q.—I think you said that the loan was made at the meeting when Mr. Ames was Chairman? A.—Yes.

Q.—And what position did he occupy in the company at that time? A.—He was President of the company.

Q.—Had the matter been discussed before the meeting? A.—Not to my knowledge.

Q.—And do you remember what took place at the meeting—can you tell me from memory, or is it passed out of your memory to some extent? A.—It is not very clear in my mind.

Q.—Was this agreement, exhibit 221, produced at the meeting? A.—Yes, that agreement was produced and I noticed on it that it is initialled by the Chairman of the meeting as accepted.

Q.—It is marked A., that is approved and initialled by Mr. Ames? A.—Yes.

Q.—It was produced, I suppose, by Mr. Ames? A.—I believe so.

Q.—And was then signed by Mr. Cox? A.—It had been signed previously.

Q.—Then was there any memorandum in the Agenda book regarding this transaction? A.—No, that was the basis of the entry in the minute book.

Q.—This document was initialled by Mr. Ames, and that was the whole record that was made at the meeting? A.—Yes.

39th day, June 11th, 1906.

Q.—Then that was entered up in the minute book afterwards as a purchase, as we saw on Friday? A.—Yes.

Q.—Was there any understanding arrived at at the meeting excepting as is shown in this agreement? A.—No.

Q.—The whole arrangement is contained in this document? A.—Yes.

Q.—I notice a certain purchase price opposite stocks at the foot of the memo, but that is not the amount at which the stocks are placed in the minute that was afterwards entered up in the minute book? A.—No.

Q.—Was that the result of any change in the plans made at the meeting? A.—I cannot recall that, but I would think that the amount $170,746 is referred to as the market price at the time the loan was made.

Q.—This agreement reads in this way: "I hereby guarantee—it is dated first June, 1903—re-payment to the Imperial Life Assurance Company," etc. (Reads Exhibit 221). Were those prices that are under the heading Market price, the prices that were current on the exchange for these securities at that time, do you know? A.—Yes.

Q.—Have you compared them to ascertain that? A.—Yes, I have. Our meetings are invariably held in the afternoon.

Q.—At what hour in the afternoon? A.—Three o'clock, so that these market prices would be probably the quotations in the morning of June first or of the day previous.

Q.—That would be May 31st? A.—If 31st is not a Sunday.

Q.—May 31st was a Sunday? A.—Then May 30th.

Q.—May 30th probably there was no exchange, was not the stock exchange closed on some Saturdays? A.—Sometimes on Saturdays the Stock Exchange does not open.

Q.—I notice the last quotation is May 29th.

MR. GEARY: The 30th is Decoration Day in United States so that the exchange would be closed.

MR. TILLEY: So that the last quotation before the morning of June 1st would be on May 29th? A.—Yes.

Q.—Taking the exchange for that day the British America Assurance Company is the first one here; I notice the closing quotation on May 29th was 90 bid, and June 1st 88 bid, and here the market price is put down as 90, so that would appear to be the closing

Imperial Life (Mr. Bradshaw Ex'd).

bid quotation on May 29th? A.—Yes, and the loan price was 85.

Q.—Or 5 points below the current market price? A.—Yes.

Q.—Western Assurance Company, closing bid quotation on May 29th was 89½, and June 1st 88, for which the market price shown is a little above either of those, being 90? A.—And the loan price was 85.

Q.—If the market price was 88 as the closing quotation on June 1st, 85 would be rather a high loan on that? A.—Yes, on that particular stock, but then there were other stocks in which the margin was much greater than that.

Q.—Do you regard a stock in a fire insurance company as being a good stock to loan on? A.—Not referring in particular to any one company, I think that a fire insurance stock should never be purchased or loaned upon by a life insurance company.

Q.—You think a fire insurance company should not be a security in which they should be authorized to deal in? A.—No.

Q.—Why do you say that? A.—Because fire insurance companies are subject to too great fluctuations.

Q.—Would you at that time have recommended a loan to any other person on fire insurance stock on a margin say of ten points even? A.—It would depend a good deal upon the person, it would be questionable.

Q.—Have you ever loaned except in such a transaction as this up to within ten points of the market price—do you not always require at least a ten point margin? A.—Yes, I think so, the practice is to require at least ten points, if not more.

Q.—And as a stock in a fire insurance company you would be very particular to see you had that margin in ordinary cases? A.—Yes, but where the stock is associated with other stocks and the margin is quite wide in the other cases that would be taken into consideration.

Q.—I suppose that is so, because where you have a variety of stocks there is a chance for improvement in the others? A.—Yes.

Q.—And you have better security than where you put it all on the same stock? A.—Yes.

Q.—Ontario Bank stock, the closing bid quotation on May 29th was 130, and on June 1st the asked quotation was 134 and bid quotation 130? A.—And the price at which we loaned on that stock was 121¾.

Q.—The market price at that time

was 131 shown in this agreement? A.—Yes.

Q.—Dominion Coal, the asked price on the 29th was 94, and the bid price 91¾, and on June 1st the closing bid quotation had dropped down to 84? A.—Yes.

Q.—The market price in this memo. is 94, that would be the 29th quotation? A.—Yes.

Q.—That would be the closing asked price on the 29th? A.—Yes, and the loan value was 72 2/3.

Q.—Considering the state of the market on that stock at that time was that what you would regard as a proper margin on an ordinary loan to a broker, for instance, a call loan? A.—The stock is an unauthorized stock, and we probably would not have loaned on it to any one.

Q.—Other than—— A.—Other than under these circumstances.

Q.—Other than to Mr. Cox? A.—Other than with the guarantee of Senator Cox.

Q.—And his request, I suppose? A.—At the request of Mr. Ames and Senator Cox.

Q.—Let us take up the next one; the Twin City stock, the closing asked quotation on May 29th was 103¾, and the bid 103½, and on June 1st the closing asked quotation was 100⅝, and the closing bid 100¼; I see that here the market price is said to be 104 in this memo? A.—Yes.

Q.—Of course that would be higher than any of these quotations; but that was on the stock that at that time was fluctuating? A.—Fluctuated a good deal, and the loan value of the stock was 90.

Q.—When you say the loan value you are referring now to the price that was advanced or paid by the Imperial Life? A.—Yes.

Q.—Whether that be a purchase or a loan that was the amount that was paid out by the Imperial? A.—That was the amount of the loan by the Imperial Life.

Q.—Taking these market prices as set out in the memo. they would produce in the aggregate $170,746? A.—Yes.

Q.—You say that this agreement was before the meetings signed by Mr. Cox? A.—Yes.

Q.—And so far as you can remember there was no arrangement made except as shown in this agreement? A.—No.

Q.—Then this agreement clearly provides, does it not, for the guarantee by Senator Cox of the payment of $170,746 to the Imperial Life Assurance Company? A.—It provides for the re-payment of $170,746, which amount was never advanced to Mr. Ames and Senator Cox.

Q.—But you say that the transaction was put through on this guarantee, if the guarantee was carried out, the guarantee stipulated that the Imperial Life Assurance Company should get that amount of money, does it not? A.—We considered that the transaction was a loan transaction, and this agreement to us was of value in respect of the guarantee of the amount loaned.

Q.—It was of value to you in respect of getting what the contract stipulated you should get? A.—No, getting the amount that the company had advanced on these shares.

Q.—But there is nothing said about that in the agreement, there is nothing said about advance at all by the company, was not the transaction by this agreement a sale with an option to take it back, and a guarantee that you would get at least $170,000 odd, the amount mentioned in the agreement? A.—That was not the intention of the transaction, the spirit of the transaction, or the way it was explained to the directors.

Q.—Now we are getting to something outside when you say something that was explained; can you point to anything in the agreement that indicates any other intention than the one I have mentioned, that this should be the whole transaction? A.—It refers to the re-payment of a certain sum of money that was never advanced.

Q.—It uses the word "re-payment"? A.—Yes, of a sum of money that was never advanced.

Q.—And you say the amount that was mentioned was to be repaid, the whole amount of that was never advanced? A.—No.

Q.—You were to pay out something, and then the contract here signed by Mr. Cox who guarantees you will be repaid a certain other sum of money, $170,000, if this agreement is the document that governed—is it not obvious that the Imperial Life was to get the difference between what it paid out and the $170,000 this contract says shall be repaid to the company? A.—No.

Q.—Did the company ever get more than $170,000 that is mentioned here? A.—It got the loan it made, the loan was repaid.

Q.—Did the company ever have paid into it before it had paid back

39th day, June 11th, 1906.

anything to Mr. Cox more than this $170,000, did it ever get more than $170,000? A.—You mean through the re-sale of the shares?

Q.—Yes? A.—No, it did not, but very near to that amount.

Q.—If this contract means that the company is to get back $170,000 it would be entitled to keep all the money it ever got? A.—That was not the intention of the contract.

Q.—That would be so, would it not? A.—That is a legal question and I am not capable of pronouncing upon it.

Q.—If the company was entitled to keep all that it got up to $170,000 odd it would be entitled to retain everything it got, anl not give back anything to Mr. Cox? A.—I cannot answer that question, I do not quite see it in that light.

Q.—What I wanted to get from you was that a certain sum of money you say at the end of this transaction was either paid or credited to Mr. Cox? A.—Yes.

Q.—If the construction I have put on this document is right that money should never have gone to him? A.—But Mr. Tilley——

Q.—If my construction is right? A.—You can take what construction you like from it.

Q.—And I have taken a construction from it? A.—I cannot answer a suppositious question of that character.

Q.—I am asking you if my construction of the document is right, if you were to keep everything you got up to this $170,000, whether you would have been entitled under those circumstances to have paid anything back to Mr. Cox? A.—I cannot see it in that light.

Q.—What was the total amount you received on the sale of the stocks? A.—$169,316.53 after crediting dividends and debiting interest.

MR. LANGMUIR; That is crediting the dividends too? A.—Crediting dividends and debiting interest.

MR. TILLEY: Q.—So that you did not receive in the whole $170,000? A.—No.

Q.—Then how much of that $169,000 did you pay back to Mr. Cox? A.—The balance after——

Q.—How much in money? A.—$12,354.90.

Q.—So that that would bring the total amount you received down to about $157,000? A.—About that amount.

Imperial Life (Mr. Bradshaw Ex'd).

Q.—If the transaction was put through, as you say, on the strength of this agreement, your rights would depend entirely on the wording of the agreement, there was nothing else arranged, you said, at the meeting except this document of June 1st was approved of? A.—Yes, and there was an understanding of the directors, which I think must always be taken into consideration.

Q.—I am not talking about understanding of directors, you have told me nothing else was agreed to except this document? A.—In writing.

Q.—Do you want to vary that and say something else was agreed to than what was in the writing? A.—No, but it was always understood it was a loan.

Q.—You are speaking of at the meeting? A.—At the meeting and afterwards. At any time the matter was considered it was always regarded as a loan.

Q.—Did the matter come up at any time for consideration? A.—It came up every time there was an amount received.

Q.—It would just go to the credit of that account? A.—Yes.

Q.—That would require no consideration between the members of the Board? A.—It would indicate clearly the view that was taken of the transaction.

Q.—It would simply necessitate the money received being credited to the account in which this stock stood? A.—Yes.

Q.—Was there anything at the meeting that was said by any of the parties that would vary or alter the arrangement as set out in this document? A.—Yes, they regarded it then as a loan.

Q.—By reason of what? A.—When the transaction was presented to them it was presented to them as a loan, and as I have explained before——

Q.—By whom? A.—By the Chairman.

Q.—What did he say about it? A.—I cannot give you his exact words, I can only give you my recollection as a director of the company, I was present at the meeting.

Q.—You are just giving what the impression was in your mind? A.—Not only the impression, but also my absolute knowledge of it.

Q.—You had had no discussion about it before the meeting commenced? A.—No, in the presentation of it to the meeting.

39th day, June 11th, 1906.

Q.—I am not asking you the impression that was in your mind when you left the meeting, because you might have misunderstood it, I am asking you what was said by any person that would lend any explanation to this document other than what one would gather from reading it through himself?

A.—Whenever a transaction is brought up at a meeting it is gone into and explained; the fact that an agreement is presented to the meeting does not simply mean that the transaction goes through on that agreement. A matter involving such a large amount as this, and such an important transaction as this, would probably take up half an hour, and it would be——

Q.—I understood you to tell me that this transaction did go through on the basis of the agreement? A.—Yes, that was the basis of the agreement.

Q.—Can anything be plainer than that under this agreement the Imperial Life Assurance Company, for paying out that money— A.—But it did not pay it——

Q.—Paying out the money it did and taking over the stocks at that time was to get the difference between what it paid and the $170,000? A.—Yes, there was an understanding at the meeting when that transaction came up————

Q.—I suppose it would be fair to say that the parties did not want these stocks put on the market at that time, some of them at any rate? A.—I have no knowledge whatever of that, I have never heard that view presented until you presented it just now.

Q.—We heard of other companies' stocks, Twin City and Dominion Coal, two of the stocks mentioned here, in order to keep up the price——— A.—That was not discussed nor considered, and I think moreover that any one acquainted with financial matters would immediately see that the volume of stock here would not be a very important factor in the market.

Q.—Apparently Dominion Coal had dropped from about 93 to 84 from May 29th to June 1st? A.—Apparently from newspaper reports.

Q.—Can you tell us anything that Mr. Ames said at that meeting that would indicate that the transaction is anything different from what is set out here in the document itself? A.—The matter was presented to the meeting as a loan on these stocks with a guarantee to Senator Cox for the repayment of it, that is the way it was

Imperial Life (Mr. Bradshaw Ex'd).

presented, it must have been presented in that way by the Chairman of the meeting.

Q.—Is it not a fact that it was presented as a purchase with a right to re-purchase it coupled with a guarantee? A.—It was not.

Q.—The word "purchase" is the thing that stands out plainly on the document all the way through; at the bottom, "Total purchase price," and the payment of $170,746 is to be repaid provided the Imperial Life Assurance Company will grant the option of re-purchasing—there cannot be a re-purchase without an initial purchase? A.—There cannot be a re-payment without an initial payment, and what was the initial payment?

Q.—There was no payment made to Mr. Cox, the payment was to Mr. Ames? A.—It is one transaction in that respect.

Q.—And Mr. Cox was to have the right to re-purchase, does not that of itself anticipate that the transaction commenced with the purchase, and then there is a right of re-purchase? A.—Not according to my view.

Q.—How was that money advanced? A.—I will give you a statement of the whole transation to set it forth clearly. (Produces a statement.) That is from the commencement to the end of the transaction.

——Statement produced marked as exhibit 222.

Q.—That account is headed "Re loan to Mr. A. E. Ames guaranteed by Hon. Mr. Cox, interest at 6 per cent." and then it sets out securities; were all the advances made on the one date? A.—No, the first advance was made June 5th, and the last advance on June 11th.

Q.—Can you tell me how it was that the payment was distributed over several days in that way? A.—We would receive advice when the shares would be available, and when they were available we would pay out the amount.

Q.—To whom would you make payment? A.—To whomever the cheque was instructed, sometimes to a bank, mostly I think to banks; these stocks had been hypothecated by Mr. Ames.

Q.—You would make your payment to the pledgee who held that particular number of shares? A.—Yes.

Q.—And then you would take delivery of the shares to the company? A.—Yes.

Q.—The shares would always be transferred to you? A.—Yes.

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

Q.—From whom would you ascertain where the shares were, and when you should pay the money? A.—Through Hon. Mr. Cox.

Q.—Did the instructions come from him or from Mr. Ames? A.—From Mr. Cox.

Q.—Have you a distinct recollection of that? A.—Yes.

Q.—How did you know what you had to pay? A.—He would telephone the amount and tell us where the securities were, and the cheque would be made out accordingly.

Q.—Had the amount that you would have to pay been determined at the date of the meeting, June 1st, the amount you would have to pay to the pledgee for these shares, was it known on June 1st? A.—Yes.

Q.—Did the cheques you subsequently paid exactly equal that price that you were to pay? A.—Yes.

Q.—And you did not get instructions from Mr. Ames? A.—Not to my knowledge; I am almost positive about that; this happened three years ago, and I could not refresh my memory because there is no record of the transaction; I think that all my instructions came from Senator Cox.

Q.—Would the instructions come to you or to the managing director Mr. Fred. Cox? A.—I think they came chiefly to me, probably all of them came to me, in fact I think they did all come to me.

Q.—Are you the officer who would receive instructions in such a matter? A.—Not always.

Q.—But in regard to this matter you think you did receive all the instructions? A.—Yes.

Q.—And then you would have the cheques issued and take up the shares? A.—Yes.

Q.—Immediately on the shares being taken up they would be entered in your security ledger? A.—Yes.

Q.—And they were entered in the portion of the ledger containing the record of stocks owned by the company? A.—Yes.

Q.—And I think you showed us they were mixed with your own shares? A.—Yes.

Q.—Not a separate account kept for them? A.—Yes.

Q.—Who mixed those entries? A.—The entries at that time were made by the investment clerk.

Q.—What was his name? A.—Mr. Paterson, son of Mr. John A. Paterson. Mr. Paterson is now in Oxford, he obtained the Rhodes Scholarship. The entries were made by him.

Q.—Have you enquired to find out whether any other officer in the office knows anything about the making of the entries? A.—I have, since this question has come up, and I have received no further light in respect of the entries than I have stated.

Q.—In such a matter would entries be made without consultation with you? A.—Yes, I do not think there is an entry in this book I have been consulted about.

Q.—They remain in separate accounts till June 26th? A.—Yes, when the error was discovered.

Q.—Can you give us any further information about the discovering of the error than you did on Friday? A.—No, I cannot.

Q.—You do not remember, you say, how or when it was discovered? A.—No.

Q.—You had nothing to do with it as far as you remember, making the change from the individual accounts to the accounts where all these securities are collected? A.—Not that I know of.

Q.—It made no impression on your mind at all? A.—No.

Q.—When did the question of purchase or loan next come to your attention? A.—I think at the end of the year.

Q.—On December 30th? A.—Yes.

Q.—When the entry was made in the minute book? A.—The assistant secretary, Mr. Pickett, I think it was, called my attention to the error in the minute as I believe the result of a statement made to him by the auditor.

Q.—That was on December 30th? A.—Yes.

Q.—On December 29th the account was closed? A.—Yes.

Q.—And these $12,000 odd you spoke of were accounted for to Mr. Cox? A.—Yes.

Q.—Was it not the payment of that money to Mr. Cox, or giving him credit for it, that necessitated this change in the minute? A.—I understand that it was through the auditor calling attention to the error in the minute.

Q.—The auditor would not have any occasion to call any attention to the minute until he would find money was being paid to Mr. Cox? A.—It is the practice of the auditor to go through the minute book and to see the transactions in our ledgers and subsidiary books agree with the entries made in the minute books.

Q.—On December 23rd will you tell me what the auditor could find wrong

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

with that transaction; there was a purchase made, the price paid, and the securities entered up in your book containing stocks owned, what could he find wrong with that; you had not then paid out any money to Mr. Cox or done anything to show it was anything but a purchase, what could he criticize? A.—He noticed that the amounts were not being treated as a purchase but as a loan.

Q.—In what respect were they not being treated as a purchase? A.—The amounts were being carried from loan account to Mr. Cox's credit.

Q.—Where is that? A.—You will see in the statement there; it is not stated there, but the whole thing is put in one item. Here in the——

Q.—You are referring to an item that is not shown in the copy of the account you have handed to us? A.—Yes; there is an item here on December 3rd, 1903.

Q.—In the account headed "Special Investment Account" you have credited the Toronto Savings and Loan Company debentures, $351.08? A.—Yes.

Q.—The only entry previous to that where money was credited to Mr. Cox or to any company in which he was interested is an item of what date? A.—June 25th.

Q.—"To transfer, $5,287.78." Now, then, you produce what book? A.—The journal.

Q.—At page 21 you show that item? A.—Yes.

Q.—$5,287.78, and you say "stocks owned by the company, debtor,"—what does that mean, stocks owned by the company? A.—That is the account it was carried to in the general ledger.

Q.—You had an account in the general ledger showing stocks owned by the company? A.—Yes.

Q.—And were these stocks that we have been referring to in that account? A.—Yes.

Q.—They were in that account up to——? A.—To December 30th.

Q.—You credit stocks owned with $5,287.78? A.—Yes.

Q.—And that is made up of different items? A.—These three.

Q.—Interest on bank balances, $40.28; bonds and debentures, $5,000, and Toronto Savings & Loan Co. debentures account, $247.50? A.—Yes.

Q.—That total amount, $5,287.78, is the difference between the amount paid on the 250 shares of Dominion Coal and the amount that is realized according to the statement you have put in? A.—Yes.

Q.—Then you apportion that sum of money into three accounts, each one of them being for Mr. Cox's benefit? A.—Yes.

Q.—And that was charged up to the account, "stocks owned by the company"? A.—Yes.

Q.—And at that date, June 25th, that was before the stock had been taken from the separate accounts in which they stood to a collected account? A.—Yes.

Q.—That change could not have been made from the separate accounts, the individual accounts, because mistake had been discovered, because they continued in stocks owned by the company to December 30th? A.—Yes, it was not thought necessary to change the general ledger account till the transaction was carried out.

Q.—I think they were changed in the subsidiary ledger accounts, they were not changed in the general ledger account and remained even after they are transferred to the other account as stocks owned to December 30th, 1903? A.—Yes.

Q.—Can you say, or does Mr. Pickett say, that the auditor discovered that mistake at that time, or when did he discover the mistake? A.—(Mr. Pickett speaks to Mr. Tilley)

Q.—You say the auditor would check over the investment ledger with the minute book of the company, and that that would be done about every half year.

MR. PICKETT: Yes.

——Mr. Pickett answers the questions till a change is indicated.

Q.—And the auditors might not have noticed it till the end of the year, but you cannot say whether he did notice it at the end of the year or the middle of the year, or what was done about it? A.—I cannot say definitely.

Q.—You do not remember anything about it? A.—Speaking from memory——

Q.—Have you any memory about it at all, if you have not say so? A.—I think it would be about the end of the year.

——The questions are answered by Mr. Bradshaw until a change is indicated.

Q.—Who is the auditor of the company? A.—John McKay and Mr. H. Vigeon.

Q.—Have they been spoken to about it at all? A.—No.

Q.—Then you say the stocks were

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

sold under instructions, I think you told us from Mr. Cox? A.—Yes.

Q.—And those instructions would be received by you? A.—Yes.

Q.—And the whole amount, $12,354.90, over and above the amount that you paid, with interest, after crediting dividends was credited to Mr. Cox or to some company he controlled? A.—Yes.

Q.—At different times, and that carries the transaction into the other account we are speaking about where two per cent. was written off at the end of 1905? A.—Yes.

Q.—Have you made up a statement of that account? A.—Yes, I have. (statement produced.)

Q.—This statement is a statement of the Toronto Savings & Loan Company debenture account dated December 31st, 1903, (filed as exhibit 223); it commences with an item of May 21st, 1903, of a cheque for $40,000? A.—Yes.

Q.—That is a cheque issued by the Imperial Life Company? A.—Yes.

Q.—To whom? A.—To A. E. Ames & Company.

Q.—On June 5th there is another cheque for $28,700, what does that item represent? A.—It would be also another cheque to Ames & Company or for Ames & Company, I cannot say whether it is to Ames & Company, but it was on account of Ames & Company.

Q.—For their benefit? A.—Yes.

Q.—And June 10th a cheque for $2,400? A.—The same thing.

Q.—So that at the end of December, 1903, you had advanced on that account $71,100? A.—At the end of June 10th.

Q.—And the interest computed on those sums up to December 31st, 1903, at 6 per cent., was $2,539.38, making in all $73,639.38? A.—Yes.

Q.—What securities did you get when those three advances of $40,000, $28,700 and $24,000 were made? A.—We got the debentures of the Toronto Savings & Loan Company.

Q.—Mr. Ames was then the President of your company? A—Not at that time, only during part of the time the advances were made.

Q.—Which part? A.—Mr. Ames ceased to be President, I think, on June 2nd.

Q.—The 15th? A.—Yes, I think that is right, it was the day of the next meeting, June 15th, so that they must have been made during the time he was President of the company.

Q.—You say you received the Toronto Savings & Loan Company debentures? A.—Yes.

Q.—Did you receive those debentures for the $40,000 when that was paid? A.—Not on the same date, about the same time, within a day or two afterwards.

Q.—Did you receive the debentures applicable to that transaction first? A.—No, not of that amount.

Q.—What did you receive, and when did you receive it? A.—We received them about two or three days afterwards. (Turns up account.) The exact date is not given here, but it would be about the date when the cheque was given.

Q.—That is May 21st cheque? A.—Yes.

Q.—How much did you receive in debentures? A.—The debentures here are in various amounts, $20,000 and $20,000, I suppose those two would come first, and then as we advanced more moneys the others would come.

Q.—Then you made other payments, as this account shows, and you received in the aggregate debentures for $71,100? A.—Yes.

Q.—From whom did you receive them? A.—Senator Cox.

Q.—Do you know whose they were? A.—No; I do not.

Q.—You don't know whether they were Mr. Ames' or Mr. Cox's, or whether they were the Company's debentures? A.—No.

Q.—Will you explain that transaction then, if you please? A.—In what respect?

Q.—How did the company come to make it and under what conditions did they make it? What were the terms proposed? A.—Senator Cox and Mr. Ames asked us to make an investment in Toronto Savings & Loan Company Debentures for that amount and we did so.

Q.—How did the money go to A. E. Ames & Co., or for their benefit? A.—Because Mr. Ames was one of the persons who was in connection with the negotiations.

Q.—Had you any written instructions as to that from Senator Cox? A.—No, there were no written instructions about these matters at all.

Q.—Mr. Cox was the President of the Toronto Savings & Loan Company? A.—Yes.

Q.—The holder of a control in the capital stock of that institution? A.—I do not know that .

Q.—I think he told us that himself, that that was one of the companies

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

in which he held the control, and the transaction was brought about, then, by Mr. Ames or by Mr. Ames and Mr. Cox jointly? A.—Jointly.

Q.—Asking you to take these debentures? A.—Yes

Q.—Did you know the object or was there any object that was communicated to you other than an investment? A.—At that time it was pretty well understood that Mr. Ames was in difficulties, and while I had no direct information I assumed it was to assist him.

Q.—Do you know the date that he suspended? A.—The 3rd June, 1903.

Q.—Then that was what you understood to be the object at that time? A.—I cannot say that I understood it at that time, but I think my suspicions were aroused.

Q.—And from what you have learned since you know that now to be the case, do you? A.—I think I can say, yes, to that.

Q.—It is a matter that you think there would be no question about at the present time? A.—I think not.

Q.—Were you in a position then that you were seeking investments? A.—No, not specially.

Q.—Were you not in a position that you did not want investments at that time? A.—We are always open to consider investments at all times.

Q.—That would depend upon the rate and so on, you would call in some other loans probably in order to make a better investment, or you might do that? A.—Yes.

Q.—That is not quite what I am aiming at. That is the question in respect of which the additional 2 per cent. was given by Mr. Cox? A.—Yes.

Q.—Why was that guarantee given? A.—I brought that about myself personally. I pointed out that our account at the bank was overdrawn at that time.

Q.—Let me stop you there for a minute because the entry regarding that transaction is on December 30th, 1903, I think, in your minutes, is it not? A.—Yes

Q.—And that is where the additional 2 per cent. was guaranteed? A.—Yes, it was guaranteed at the time.

Q.—That was not the time when you arranged for the 2 per cent? A.—No, it was at the time the transaction went through.

Q.—Would that be at the time of the first advance? A.—Yes.

Q.—Did you at the time of the first advance anticipate making the other advances that were subsequently made? A.—Yes.

Q.—You knew then you would advance up to about $70,000? A.—Yes.

Q.—Then who did you have the negotiations with? A.—Senator Cox.

Q.—Tell us what the transaction was? A.—I pointed out to him that the rate the debentures called for was 4 per cent., that we had an overdraft at the Bank on which we were paying 6 per cent., and on taking over such a security as this we should have 6 per cent. at least on it.

Q.—Will you tell me what the overdraft at the bank was? A.—In May it was about $160,000. That would include the $40,000 paid out. I am giving you the balance of overdraft at the end of May.

Q.—So probably it would be $120,000 when that loan was asked? A.—Yes.

Q.—Have you the debentures yet that were issued with respect to that transaction? A.—No, the debentures were redeemed some short time since.

Q.—Have they been paid off? A.—They have been paid off.

Q.—Has there been any loss with respect to it? A.—Oh, no, it is a debenture that is accepted by trustees and issued by a thoroughly responsible company, one that stands exceedingly high in the financial world. There could not be any loss in connection with a debenture of that character.

Q.—Very well, then, there was no loss. Were the debentures issued for that round amount, $71,000, originally? A.—No, they were not.

Q.—You don't know, as you have said, from whom they came or whether they were made out specially for you or not? A.—They were made out in the name of the Imperial Life and we received them through Senator Cox.

Q.—They were made out by the Company promising to pay to the Imperial Life? A.—Yes.

Q.—And they were handed to you by Senator Cox? A.—Yes.

Q.—They were in different amounts but totalling $71,100? A.—Yes.

Q.—And they have all been redeemed and handed back to you by the Toronto Savings and Loan Company? A.—Yes.

Q.—Then your overdraft being $120,000, you were paying, I suppose, 6 per cent. interest on that? A.—Yes.

Q.—And you stipulated for the same rate as you were paying? A.—Yes.

Q.—That indicates, does it not, that the transaction was one clearly for the

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

accommodation of Mr. Cox, or Mr. Cox and Mr. Ames? A.—The debentures in themselves were a first-class security.

Q.—I suppose you would have first-class security when you would have an overdraft at the bank? A.—Yes. I think just in a word that it was pretty well known that Mr. Ames then was in financial difficulties and that Senator Cox was assisting him.

Q.—And assisting him through the Imperial Life, which he controlled? A.—At all times he gave us security for every advance that he received from us.

Q.—He was giving you security, but he was getting transactions put through that no person else but Mr. Cox could have put through, isn't that right? A.—I cannot answer that question. It is such a wide question that it would be almost impossible for any person to answer that question, I think.

Q.—Have you it in your mind that there might be some other person than Mr. Cox that could have got a transaction like that put through at the time? A.—I say I cannot answer that question.

Q.—Or do you mean that you would rather not answer it? A.—No, I cannot answer that question because you don't know who might come up or what security they might offer, and what circumstances might surround their case.

Q.—You think you cannot give any better answer than that? A.—No.

Q.—Mr. Cox wanted it done? A.—He would not have come to us unless he did.

Q.—And when he came to you he intended it should be done? A.—I cannot say that. If I had said, or if the directors had said, I won't say myself, if the directors had said, No, Mr. Cox, we cannot entertain this transaction, I don't think Senator Cox would have pressed the transaction.

Q.—If the directors said, No, we will not do it, it could not be put through? A.—No.

Q.—Not with that Board? A.—No.

Q.—Not that year? A.—Any time. Any time in the history of the Imperial Life.

Q.—With that Board? A.—With the Board we have had since we commenced business.

Q.—That is the transaction would have had to be postponed till the next year? A.—No, I would not get that in my mind.

Q.—That is not what the Board did, at any rate? A.—Object?

Q.—Yes? A.—No.

Q.—Did any of them object? A.—No.

Q.—With respect to this transaction? Or the other transaction that we spoke about, was there any person that objected in the Imperial Life Board of Directors? A.—No.

Q.—Did they question the propriety of it? A.—I cannot recall any discussion of an adverse character in respect of it.

Q.—It went through somewhat as a matter of course? A.—Not as a matter of course, because it was given a good deal of consideration.

Q.—By whom? A.—By all, as all of our transactions are. I cannot tell you of any one individual director.

Q.—The President, Sir Mackenzie Bowell? A.—I cannot tell you.

Q.—Was he consulted about it? A.—Yes, he knew all about it.

Q.—And no objection raised? A.—Not to my knowledge.

Q.—And other directors were consulted? A.—Yes.

Q.—And they raised no objection? A.—No.

Q.—If the directors were not objecting, will you tell me why the transaction was left from May or June, 1903, down to December 30th, 1903, before it was recorded in the minutes? A.—The idea was this, we were desirous of having the debentures reduced to the lowest possible amount and instead of entering them, taking them up at our meeting as a $71,100 debenture, we wished to have them reduced to the smallest amount and at the end of the year they were reduced to $50,000.

Q.—I see that at the end of the year they were reduced to $50,000 and the transaction was put through as a $50,000 transaction? A.—Yes.

Q.—And that was because the persons who were carrying through the negotiations did not want it to appear on the books as $71,100? A.—No, I cannot say that.

Q.—They did not want it to appear so large? A.—I cannot say that.

Q.—Wanted to get it reduced? I am trying to get the words you used a minute ago? A.—Yes, to try and get the amount reduced to an investment that we would take care of in the future.

Q.—And carry? A.—Yes.

Q.—Then it was entered up in the minutes on December 30th, 1903, for $50,000, with the guarantee at that

time of Senator Cox for the 2 per cent? A.—Yes.

Q.—There was no security for the 2 per cent? A.—No.

Q.—Except the personal responsibility? A.—The verbal statement.

Q.—The verbal statement of Mr. Cox. Now the transaction was not recorded in the minutes of May or June. Was it discussed at regular Board meetings? A.—I cannot recall whether it was or was not.

Q.—Would it be shown in the Agenda book? A.—No, only business items would be entered there.

Q—I see that the resignation of Mr. Ames is dated June 12th, and it could not come up until the meeting of June 15th, I suppose? A.—No.

Q.—There is nothing in the book up to the time the first advance was made and you say you have not the other book here? A.—No.

Q.—Can you say from memory whether it was discussed at the Board meetings? A.—No, I cannot.

Q.—There was discussion? A.—About this?

Q.—Yes? A.—Not that I recollect. There may have been or may not.

Q.—I thought you said there would be a good deal of discussion on all transactions? A.—On December 30th, but I thought you had reference to the meetings intervening.

Q.—I am referring to when the money was first paid out. There was nothing on record in your books to show any authority for that transaction at all? A.—Not until December 30th, not as a matter of authority.

Q.—And the object of leaving that until that date was to get it reduced? A.—To get it reduced to about $50,000.

Q.—Then I misunderstood you when I thought you said there was discussion in May and June about it? A.—No.

Q.—There was none then? At the end of the year what discussion was there that took place? A.—I cannot recall the discussion.

Q.—At the end of the year there was two or three matters that came up for consideration. One was the amending of that minute? A.—Yes. And then followed the reduction of the rate of interest.

Q.—No, not the reduction in the rate of interest; then followed the confirmation of the transaction with the stipulation of 2 per cent? A.—Yes.

Q.—Now those transactions have involved a good deal of discussion at that time? A.—The first one involved no discussion whatever.

Q.—The amendment of the minute involved no discussion? A.—So far as my recollection goes. I am only speaking from my recollection because I cannot speak exactly of what took place three years or two and a half years ago.

Q.—Your best recollection is that there was no discussion about the first? A.—No, and I don't know that there was any discussion about the second. I cannot say for certain.

Q.—Was there anything in the Agenda to bring up that discussion? A.—Nothing but what would be here The Agenda would be exactly what is recorded in the Minute Book, because the Minute Book is copied from the Agenda after the items have been approved in the meeting.

Q.—What was the discussion about the other transaction, then, about the Toronto Savings and Loan Company? A.—I cannot recall any discussion. I can tell you the reason why the 2 per cent. was allowed.

Q.—At that time it was being insisted upon; that is not the resolution foregoing the 2 per cent? A.—Oh, no.

Q.—That is the resolution sanctioning this transaction regarding Toronto Savings debentures? A.—Yes.

Q.—Was there a discussion about it at that time? A.—There was one remark that I do remember having been made then and that, I think, was made by Mr. Massey. No, it could not have been made by him, because he was not there at that time.

Q.—No, I think Mr. Massey was at the next meeting, though, when those minutes were read and approved. What was said at that meeting? A.—I cannot recall anything that was said at that meeting.

Q.—What was said at the next meeting, when the items were approved? A.—The only remark I do remember was by Mr. Massey. He said, "Is that guaranteed in writing or is it verbal?" For the two per cent. That is all I remember about it.

Q.—That is when this resolution was read? "Authority was granted to purchase $50,000 debentures of the Toronto Savings & Loan Company, bearing interest at four per cent., the purchase to date from the 21st day of May, 1903, with the guarantee of the Hon. Mr. Cox that an additional two per cent. interest, half yearly, shall be paid on such debentures."

39th day, June 11th, 1906.

When that was read Mr. C. G. Massey asked whether there was a written promise? A.—Whether it was a written or verbal understanding.

Q.—And the reply was? A.—That it was a verbal one.

Q.—Was that said to him? A.—Yes.

Q.—Then up to the end of December, 1903, the two per cent. was paid, I believe? A.—Was paid by Senator Cox.

Q.—And then you carried those debentures for some time afterwards did you not? A.—Yes.

Q.—And prior to December 30th I think that it was brought down to $50,000 by various credits as this account shows? A.—Yes.

Q.—Including the credit from the other account that we mentioned this morning, of $12,354.90? A.—Yes.

Q.—That came in and was applied on these debentures? A.—Yes.

Q.—By what authority was the balance that was due to Senator Cox, as you now say it was due, on that loan of $12,354.90, credited to a company? A.—These debentures were received from Senator Cox.

Q.—And when they were paid off were they returned to him? A.—No, they were returned to the company. We received the amount from the company.

Q.—You received the final amount from the company? A.—Yes.

Q.—Then by what authority was this money credited on those debentures? A.—By his authority.

Q.—By Mr. Cox's direction? A.—Yes.

Q.—Written or verbal? A.—Verbal.

Q.—And were these other payments that are shown in this statement, the last Exhibit, paid by the company or by Mr. Cox? A.—By Mr. Cox

Q.—So that two or three cheques were sent to you by Mr. Cox, he instructed you to credit on the debentures the balance due from the A. E. Ames loan account, and that left $50,000? A.— Yes.

Q.—And then the $50,000 was treated on December 30th in that way by the Board of Directors? A.—Yes.

Q.—Was six per cent. interest paid on those debentures up to the end of 1903? A.—Yes.

Q.—And according to this minute it was to continue payable in the future, two per cent.? A.—That was my understanding, yes. According to this minute that is right.

Imperial Life (Mr. Bradshaw Ex'd).

Q.—Now the arrangement regarding that was made with you personally by Mr. Cox, about the two per cent.? A.—Yes.

Q.—Was that something that you insisted upon or just intimated that you thought should be done? A.—Oh, I cannot say just now, but I presented it to him and he realized it was a very fair proposal. There was really no question about it by him.

Q.—He then agreed to pay the two per cent? A.—Yes.

Q.—Then from 1903 to the end of 1905 was that two per cent. paid? A.—No.

Q.—Will you show me how that is treated in the account? A.—December 31st, 1904, the account appears in our investment Ledger No. 2, at page 12.

Q.—Headed "The Toronto Savings and Loan Company," address, "Peterborough, Ont." This contains the debentures of $50,000, commencing when? A.—The particulars of the debentures are up here.

Q.—It is transferred from another book and comes into this ledger? A.—Yes.

Q.—The first entry here is in 1904? A.—Yes.

Q.—December 31st, $1,000 is charged up? A.—Yes.

Q.—Being what? A.—Two per cent. on $50,000 for the year.

Q.—From December, 1903, to December, 1904, we have $1,000 charged up for that two per cent.? A.—Yes.

Q.—Then the next entry, July 1st is $1,000 charged. What is that? A.—That is 2 per cent. on the $50,000.

Q.—4 per cent., is it not, on the $50,000 for the half year? A.—I was going to say at the rate of 2 per cent. It is 4 per cent. for the half year on the $50,000.

Q.—That would be the rate of interest the bonds themselves would bear, 4 per cent. for the half year? A.—Yes.

Q.—Was that paid? A.—That was paid by the coupons of the company.

Q.—By taking the coupons off the debentures? A.—Yes.

Q.—The next entry is January 1st, $1,000? A.—This would be coupons also.

Q.—Coupons charged and paid? A. Yes.

Q.—The next entry would be the end of the second year charging up another $1,000, being the 2 per cent.? A.—Yes.

39th day, June 11th, 1906.

Imperial Life (Mr. Bradshaw Ex'd).

Q.—So that left a balance on that account of $2,000? A.—Yes.

Q.—Due under this verbal guarantee by Mr. Cox that this 2 per cent. would be paid? A.—Yes.

Q.—Then the next line is written in red ink, "December 29th, 1905, written off $2,000." And that squared the account? A.—Yes.

Q.—So that from December 31st 1903, down to the end of 1905, that 2 per cent. which had been promised was not paid by Senator Cox? A.—No, for this reason.

Q.—Let us have the resolution first and then we will take the reason for it afterwards. The resolution wiping out that is on December 29th, 1905. "It was moved by Mr. Wood, seconded by Mr. Moore, that the 2 per cent. charged in addition to the 4 per cent. on the Toronto Savings and Loan Company's debentures, $50,000, amounting to $2,000 be written off; that the 2 per cent. be not charged since December 31st, 1904, and that the 4 per cent. be the rate of interest claimed in the future. Carried." That resolution is inconsistent, is it not, because it says $2,000 to be written off, but it speaks of 2 per cent. since December 31st, 1904? A.—Yes, it is inconsistent, apparently there is an error made there.

Q.—It should be 2 per cent. from December 31st, 1903? A.—To correspond with the amount.

Q.—And that seems to be shown pretty clearly from the account in the account in the ledger, because there $2,000 is charged up and this resolution specifically mentions $2,000 as the sum to be taken off? A.—Yes.

Q.—Although it is in the Minute Book December 31st, 1904? A.—Yes.

Q.—But there would not be $2,000 that would accrue on that after December 31st, 1904? A.—No.

Q.—Having found out what was done will you tell us why it was done? A.—Yes, Senator Cox represented—

Q.—To whom did he represent it? A.—The negotiations were carried on with the Hon. Mr. Wood and myself. That as the bank account was not overdrawn after December 31st, 1903, that it would be only fair and proper that the 2 per cent. should not apply after that date. We considered that the reason was a fair reason and the directors struck it off.

Q.—Then, if that was the reason for it, why was the 2 per cent. inserted in the resolution of December 30th, 1903, if your bank account was then all right, why was not that authorized at that time? A.—I don't know.

Q.—You understand what I mean; you say from the end of '03 on, your bank account was not overdrawn and you were not paying out 6 per cent. in order to give him this money. That is shortly what it means, is it not? A.—So I believe.

Q.—Then if that was the fact at the end of 1903, why did not the resolution then say that 2 per cent. should be paid up to this date and not afterwards, why was not that arranged then? A.—I cannot say why that was.

Q.—Did Mr. Cox contend that under his arrangement he was only to pay 2 per cent. so long as there was an overdraft? A.—No, there was no arrangement of that kind.

Q.—Then under his guarantee he was liable to the company for that $2,000? A.—He has never disputed that.

Q.—And that is the fact that he was? A.—Yes.

Q.—According to your understanding? A.—The same thing would take place in the reduction in a mortgage of a rate of interest. The directors believe they have power in their discretion to reduce the rate of interest on the rate of loans. They simply did in this transaction what they might have done in some other transaction, probably not of the same character.

Q.—You say that the directors in their discretion are empowered, you think, in carrying on the business of a company to throw off part of the interest due under a mortgage? A.—No, I do not say that.

Q.—You say reduce the rate of interest? A.—Reduce the rate of interest.

Q.—If you are reducing the rate of interest for interest overdue, are you not throwing off part of the interest under that mortgage? A.—Yes.

Q.—Do you think the directors have power to do that? A.—It would be done in some cases. It might apply to a case where the provision was that the rate of interest shall be such a rate from such a date.

Q.—It might apply to some date past, that the interest should be lower than stipulated? A.—Yes.

Q.—That would be a matter of their discretion? A.—Yes.

Q.—In order to get the mortgage paid? A.—No, not necessarily. To retain a good loan.

Q.—To retain a good loan that there was danger of being paid off? A.—To retain a good loan.

39th day, June 11th, 1906.

Q.—That would be in the exercise of honest discretion in the interests of the company? A.—Yes.

Q.—But that was not this transaction, you were not doing this to retain a good loan? A.—We were doing it because it appeared to us as being a fair transaction.

Q.—You mean fair to the man that was owing the money? A.—Fair to all concerned.

Q.—You were giving up money that strictly belonged to the company? A.—I cannot answer that, that is another legal question.

Q.—There is very little law in that; I think you ought to go that far. It seems almost like backing up from it if you do not answer that question. That was an asset of the company on that date, was it not? A.—We did not take it into our returns as an asset. We never reckoned on the amount as being an asset.

Q.—You are giving me the distinction between a ledger and a non-ledger asset. That was a non-ledger asset because it never went into the company's hands? A.—It never entered even into our own financial statement.

Q.—You have shown it to me in your accounts? A.—Yes, but we have never taken credit for it.

Q.—Nevertheless it was yours to demand and receive? A.—We had the right to demand it.

Q.—And the person that was obliged to pay was perfectly able to pay? A.—Yes.

Q.—And up to the end of 1903 you had reaped no benefit whatever from that loan? You were paying 6 per cent. to your bank to carry it and only getting 6 per cent. from Mr. Cox? A.—Yes.

Q.—So you had no benefit up to the end of 1903? A.—No.

Q.—And down to 1905 you were reducing it to 4 per cent? A.—Which was the rate that loan company debentures bear.

Q.—But you had stipulated for 6 per cent? A.—We had.

Q.—Now would that money have been thrown off to John Smith, borrower from the Imperial Life? A.—It altogether depends on who John Smith was. If he had been a man that had done a great deal for the Imperial Life; had given not only in the way of business but in many other ways, a great deal more than the amount involved, it might be a question for the consideration of the directors. Senator Cox had been a very warm, close friend of the company.

Imperial Life (Mr. Bradshaw Ex'd).

Q.—You seem to mention everything but the one thing that I think of, whether John Smith controlled the capital stock? A.—I don't know that enters into the question.

Q.—Was it treated, do you suggest, as a means of returning to Senator Cox some of the money that he had paid voluntarily to the Company? A.—No, never thought of in that connection.

Q.—The whole transaction simply involved his request? A.—Not his request. I would not put it as a request.

Q.—What then? A demand? A.—A suggestion.

Q.—Milder than a request? A.—Yes.

Q.—It is nice to have it in a position where you only have to suggest, is it not? A.—Yes.

Q.—And then it was done? A.—After some consideration.

Q.—Who gave it the consideration? A.—The directors.

Q.—In meeting? A.—Yes.

Q.—And nothing was discussed regarding the great benefit that Mr. Cox had been to the company in gifts and so on? A.—No.

Q.—The propriety or impropriety of doing it, was that discussed? A.—No, the person who asked for it and the circumstances surrounding it.

Q.—That is the fact, that the overdraft had been cleaned up? A.—Yes.

Q.—Did any person object? A.—Not to my knowledge.

Q.—Did Mr. Bradshaw object? A.—No.

Q.—Or suggest that that was not quite proper, that if you were going to give anything to Mr. Cox, to give it to him openly and not by throwing it off as a loan? A.—No, I did not object.

Q.—At what rate were you making call loans at that time, if you were making them, in 1903? A.—During 1903 we had loans running from 5 to that special rate of the National Trust Company, 7.

Q.—I think probably we might omit that. 5 to 5½ and 6? A.—Yes, 6 per cent.

Q.—In December, 1903, would you have bought Toronto Loan and Savings Company Debentures paying 4 per cent? A.—No.

Q.—Would you have bought them in December, 1904? A.—No.

Q.—In December, 1905? A.—No.

Q.—At the present time, would you? A.—The only reason that we would

buy a loan company debenture would be for deposit purposes.

Q.—You did not use these for that purpose? A.—No.

Q.—And you would not buy them to-day at 4 per cent? A.—No.

Q.—What was the average rate of interest that your company was making during 1903, '04, '05? A.—In 1903 our average rate of earning was 5.37; in 1904, 5.42 and in 1905, 5.52.

Q.—That is a very high rate of interest, is it not? A.—Yes, that rate of interest is brought about through our very large investments in mortgages in Western Canada.

Q.—I do not want to go off to that. At any rate you were loaning money at a good deal higher and better than 4 per cent. in those years? A.—Yes.

Q.—And you would not have taken that transaction on its merits? A.—We did take it on its merits.

Q.—You would not take it at 4 per cent. on its merits? A.—We did take it at 4 per cent.

Q.—I thought you told me you would not have bought Toronto Loan Company debentures paying 4 per cent. in 1903? A.—No, we would not, unless the other circumstances had been present.

Q.—You did not take it on its merits, you took it by reason of the special circumstances surrounding the loan? A.—Which may be included in the merits of the transaction.

Q.—But not of the security. You would not have taken that as a good security, for you to put your money in, bearing 4 per cent. interest at that time? A.—No.

Q.—If that is so why would you wipe off a certain amount that was due to you, being the premium that you thought you should get, and reduce it to a transaction that you would not have taken on? A.—For the simple reason that Senator Cox suggested that we should do so and his suggestion met with our approval.

Q.—Mr. Malone wants me to ask you whether you have not been lending on municipal debentures at as low as 4 per cent.? A.—4 1-8th is about the lowest since that time.

Q.—That does not change your view that you would not have loaned on this 4 per cent., does it, that does not take us any farther does it? A.—No.

Q.—Now, Mr. Bradshaw, there is one other matter that I want to refer to, that has not been touched on already; a matter that you spoke to Mr. Shepley about on Saturday, and Mr. Shepley is of the view that the circumstances should be stated. Mr. Cox in his evidence stated that he acted to some extent on your advice with regard to a proposed scheme he had for amalgamating the Manufacturers and the Temperance and General, and the Imperial. Does that accord with your recollection? A.—I will tell you the circumstances so far as I know. I have not read, I may say, Senator Cox's evidence as given in the official Report, I have only read his evidence as given in the paper. I will give you the circumstances as far as I know them. I cannot recall the year, but I think it was Mr. E. R. Wood suggested that I should take some interest in the Temperance and General Life from an actuarial standpoint. I think he stated to me that either he or Senator Cox had secured some stock, I cannot say whether it was a majority of the stock or not, in the Temperance and General Life. I concluded to do that. Without remuneration. I spent a part of each day, probably a quarter of an hour or a half an hour in conference with Mr. Sutherland. I made no investigation of the Temperance and General Life at that time. At a later period, either at the suggestion of Mr. Sullivan or Mr. J. F. Junkin, I made an investigation of the Temperance and General Life and of the Manufacturers' Life with a view to the amalgamation of those two companies. I went into the matter very thoroughly and made my report. I understand that in Senator Cox's evidence he stated that there was at one time a likelihood of the Temperance and General, and Manufacturers Life being amalgamated by the Imperial Life. I never heard of that until Senator Cox had given his evidence. It had never been brought before the Imperial Life directors; it had never been mentioned to me, and I think the Senator must have been under a misapprehension at the time he made that statement.

Q.—That is in so far as? A.—The amalgamation is concerned with the Imperial Life.

Q.—In so far as he attributed any knowledge of that to you? A.—Yes, I didn't know anything about it.

Q.—It might have been a matter that he was thinking of without disclosing it to you? A.—He may have had it in his own mind, yes.

Q.—Has that phase of the possibility of amalgamating companies influenced you in anything you have

39th day, June 11th, 1906.

Imperial Life (Mr. Bradshaw Ex'd).

done in the past in connection with the Imperial and matters that have been referred to? A.—I think it must have had some influence in respect to all insurance men.

Q.—Did it in any way account for the entering into of the agreement that we have as an Exhibit, regarding the stock in the Imperial Life Company? A.—It may have.

Q.—Was that phase of the matter at any time discussed between you and others? A.—The Manufacturers Life and Temperance and General?

Q.—No, but with regard to the Imperial Life, that where there was control of the Imperial Life there was always opportunity for it to be amalgamated or dealt with in some way that might affect your position in the company? A.—Yes, there had been some discussion.

Q.—And was that from your standpoint what led to the agreement regarding the stock? A.—It may have been.

Q.—Well, was it? From your standpoint? A.—I think so.

Q.—And in that connection you said that Mr. Flavelle and Mr. Ames interested themselves in it? A.—Yes.

Q.—Was Mr. Flavelle in any way a party beneficially concerned in that agreement? Was he in any way behind you with regard to the transaction? A.—No, not at all.

Q.—When the agreement was cancelled and the money paid, was that paid to you, your share of it, for your own individual use? A.—Yes, for my own personal benefit.

Q.—Has any other person any interest in any shape or form? A.—None whatever.

Q.—It was not in any way returned by you to Mr. Cox or paid over by you to any person for him or any other of the parties who had paid money for him into the Imperial? A.—Absolutely no.

Q.—When the agreement was entered into regarding the stock in the Imperial Life, what prospect had you of being able to carry through your share in that agreement? A.—I was relying upon Mr. Ames to carry out my share financially.

Q.—Were you relying on him to do it through any understanding between you? A.—No.

Q.—Had that been mentioned? A.—He said he would take care of the financial part of it.

Q.—In that way you were relieved from the responsibility of considering where the money would come from? A.—Yes.

Q.—And then did you tell us on Friday the circumstances under which you cancelled that agreement? A.—Yes, I told you the whole circumstances.

Q.—It was at whose request? A.—Mr. Ames'.

Q.—And it was a request made by him to you? A.—Made by him to me.

Q.—That he wanted to be relieved of his share of the agreement and was getting some consideration for it from Senator Cox? A.—Yes.

Q.—And then you were asked to release your interest, also for a consideration? A.—Yes.

Q.—And that consideration you have told us? A.—I have stated what it was.

Q.—I see that you had other British America Insurance Company stock as an investment? You bought it in 1899 I think and carried it till 1905? A.—Yes.

Q.—And on that you sustained? A.—A loss.

Q.—A substantial loss? A.—A small loss; not a substantial loss.

Q.—I mean substantial in proportion to the amount? A.—Yes. Small in amount. The whole loss was, I think, about $2,000.

Q.—But the holding was only about $6,000? A.—Yes.

Q.—So that the whole transaction was fairly small. It is from experience that you speak of fire insurance stock as being a not very good security? A.—Yes.

Q.—And you got that idea partly from this experience that you had? A.—No, I always had that view of it.

Q.—You think an insurance company should not be permitted to invest in it? A.—I don't think a life insurance company should take hold of that stock. I will put it that way, leaving out "should not be permitted."

Q.—Then in 1902 you purchased some Sao Paulo Tramway Light and Power Debentures, didn't you? A.—Yes.

Q.—You got $75,000 and subsequently you got $50,000? A.—Yes.

Q.—Do you know whether that $75,000 was from the Central Canada Loan and Savings Company? A.—Yes.

Q.—Do you know whether that was part of the 3 million dollars' bonds they had underwritten? A.—As I said on Friday, I never heard of such

a transaction, involving 3 millions, in these. I knew nothing at all about it. They were bought on their merits strictly at that time, and without reference to any other consideration whatever.

Q.—At what date were they bought? A.—May 8th, 1902.

Q.—Then when was the $50,000 of bonds and $75,000 stock purchased from Mr. Flavelle? A.—July 2nd.

Q.—In the same year? A.—In the same year.

Q.—And that brought to an end the loan that had been granted to him? A.—Yes.

Q.—Did Mr. Flavelle and the other parties who had these call loans, where they were taken up on December 31st in one year and taken back on January 2nd the next, pay the interest for that period or would there be any interest omitted from the statement? A.—No, the interest would be paid up to December 31st and then the interest would start again on January 2nd.

Q.—Then they paid the Company no interest for the intervening time? A.—No.

Q.—That applies in each one of the transactions? A.—Yes, because we had the money.

Q.—Then that $50,000 of bonds in the Sao Paulo Company, that you got from Mr. Flavelle, carried $7,500 of stock? A.—Yes.

Q.—When was that stock sold? A.—Some time in March, 1902.

Q.—You did not get it till July? A.—It would be April, 1902.

Q.—That was sold before the bonds were taken? A.—Sold before the loan was taken off. As soon as we exercised the option, then that was an indication that we intended to take up the loan.

Q.—You decided to exercise the option and having placed yourself as being in control of the stock, you sold the stock at once? A.—Yes.

Q.—How did you credit the proceeds of the stock? A.—To Profits on Investment.

Q.—Leaving the bonds to bear the whole cost? A.—Yes, because the bonds were then worth 90.

Q.—I am not at all intimating that they were not worth that, but that was the fact that you charged all the cost up to the bonds? A.—Cost of what?

Q.—Cost of the bonds and stock. You credited the sale of the stock to profit and loss? A.—Yes.

Q.—That left you with the bonds? A.—Yes, which were fully worth the amount we have them in our books for.

Q.—And in your Returns? A.—The cost of those bonds would be carried forward as a profit on investment.

Q.—When the bonds were realized? A.—No, when the stock was sold.

Q.—The stock was carried then into profit and loss at once? A.—Yes.

Q.—The bonds were not sold at that time? A.—No.

Q.—When were they sold? A.—Sold on December 29th, 1905.

Q.—You carried them in your Annual Return at the end of 1903? A.—Yes, and at the end of 1904 as well.

Q.—So the $125,000 would include both the $75,000 from the Central Canada and the $50,000 from Mr. Flavelle? A.—I think so.

Q.—Then the next item is market value $114,315.77 and the ledger value $111,873.29? A.—Yes.

Q.—What does the $111,000 represent? Does that represent actual cost or something you had on your books after writing them up or altering the value of them? A.—At the end of what year is that?

Q.—At the end of 1903? A.—That would be the actual cost price and crediting the profit on stock to Profits on Investment.

Q.—Does that price represent what you paid for the bonds and stock both? A.—No.

Q.—It represents what you paid for bonds? A.—Yes, what we paid for the bonds.

Q.—When you made the transaction with Mr. Flavelle for the amount you paid you got both bonds and stock? A.—Yes.

Q.—Did you apportion anything as being the cost of the stock, to the stock? A.—No, we treated all that as profit.

Q.—The bonds bore the total cost? A.—Yes.

Q.—And the stock was treated always as profit? A.—Yes.

Q.—I suppose you never would show the stock in your return because it never was yours over the end of any year, was it? A.—No.

Q.—It was always something loaned on? A.—We could not show it at the end of any year because we never had it at the end of the year.

Q.—Was the loan on the bonds only? A.—No, bonds and stock.

39th day, June 11th, 1906.

Q.—So that you would have it as a pledge? A.—Yes, but there is a far larger amount of stock than the option that was given to us.

Q.—Your loan was no more stock than the option? A.—Yes.

Q.—That was not in your books at the end of December, because that was taken out by payment on the 31st December, so it was never in your estimates at all, that stock? A.—No, not that one.

Q.—Then the Canadian Northern Railway Land Grant bonds. Do you treat those as an investment under the Insurance Act? A.—We do.

Q.—By reason of what? A.—Being a mortgage.

Q.—Practically a mortgage on land? A.—Yes.

Q.—Being a security on land? A.—Yes.

Q.—I suppose the bonds of a railway are on land are they not? A.—I suppose they are, but we have no power to invest in railway bonds and therefore, the question has not come up.

Q.—You treat the Canadian Northern Land Grant bonds as different from Canadian Northern Railway bonds? A.—Yes.

Q.—Although both might be security on real estate, you think the Land Grant bonds, being a security on real estate only, would come within the Act? A.—Yes.

Q.—Do you think they should be within the Act? A.—I have not thought of that question.

Q.—Has the question ever been raised whether those were within the Act or not? A.—Yes, I think at the time they were purchased that was considered and we got the opinion of our solicitor or if not of our own solicitor then of some other solicitor. It was well known that life insurance companies were investing in them and we considered it a legal investment.

Q.—You purchased in 1902, 500 Canadian Bank of Commerce shares and sold 489 in the same year? A.—Yes.

Q.—Can you give me the dates of those purchases and sales? A.—Some of those shares were bought in April, 1902. Some were sold in 1902, on July 29th, August 15th, August 18th, September 3rd, and then, finally, on July 11th, 1905, the balance.

Q.—Did you pay for the shares when you purchased them, outright or were they carried forward? A.—No, we bought them outright.

Imperial Life (Mr. Bradshaw Ex'd).

Q.—Were they bought for investment, to continue to carry? A.—Yes.

Q.—Why would they be sold again so soon? A.—In regard to that I may say that there has been sometimes the view held in our company that stocks were not altogether the most desirable form of investment. That view has fluctuated from time to time. At one time I remember in the early history of the company there was a discussion as to whether the company would not decline to purchase stocks. Nothing came out of that discussion, and the view has been held now and again that we might reduce our holdings or that we might do without the purchasing of stocks.

Q.—Do you connect that discussion with these transactions in Bank of Commerce? A.—No, I don't know that I can. They may have been sold in this connection, with the desire to make a permanent investment. We did not look upon stocks as a permanent investment, and we have that desire to make a permanent investment bearing a good rate of interest. We would not hesitate to dispose of a stock that we did not regard as being a permanent investment.

Q.—There seems to be no other investment that you made in that year. Of course there are the stocks, so that would not show the investment you are speaking of? A.—No, you will find through our papers that there have been very heavy mortgage loans made and we have never hesitated to sell a security to re-invest under mortgage.

Q.—Could it be said that the stock was bought for a rise in the market? A.—No, that has never been present in the purchase of any stock that I know of in the Imperial.

Q.—It was not a case where it was thought a turn could be made out of it? A.—No, I have never heard of that being mentioned.

Q.—These transactions were all you say in the ordinary course of carrying on the Imperial Life business? A.—Yes.

Q.—Had no connection with any other person buying? A.—Absolutely none.

Q.—On the independent judgment of the Imperial Life? A.—Yes.

Q.—For its own purposes only? A.—Its own absolute benefit and purposes.

Q.—If a sale was made in the same year of a large amount in the same way, it just happens in that way that

it was considered advisable to sell? A.—Probably for re-investment.

Q.—Then you bought in that same year, 1902, $22,000 par value of Dominion Iron and Steel bonds, and sold it in the same year. Would you give me the date of purchase and sale? A.—Before that date or at the time of that date, we did not have a subsidiary investment ledger, and the purchases and sales were carried to the general ledger. We have not got the general ledger here but I can tell you pretty much from memory because I looked it up. I think the bonds were bought in April, 1902, and they were sold in December, 1902, I think about the end of the year.

Q.—Why were they sold? A.—I think the reason they were sold was that we did not care about holding them over the end of the year. In other words we did not care about them appearing in our financial statement.

Q.—Why then were they bought? A.—Because they were thought to be a good investment at that time.

Q.—Was it present to your mind, or the minds of the other members of the Board that they were unauthorized? A.—Yes, but at that time there were several interviews with the Honorable, the Minister of Finance, and the Superintendent of Insurance, looking to the enlargement of the investment powers of insurance companies.

Q.—That was in 1902? A.—1902 and '03 as well. The same encouragement had been given to the companies in connection with certain securities, and these securities were bought on the strength of that encouragement. We realize that there is no excuse for investing in a security that is not authorized and we do not pretend to make any excuse for it. We went beyond our powers and we regret that we did it.

Q.—You do not say that because a discussion took place as to widening the powers of investment, that that would give the conpanies the right to at once go and buy and anticipate legislation? A.—No, it may be an excuse, but it is hardly considered a satisfactory excuse.

Q.—I notice that in your own minutes there is a reference to an authorization to apply for broader powers of investment? A.—Yes.

Q.—Was that ever acted on? A.—It was gone into, but at that time there was a general desire on the part of life insurance companies for broader powers, and instead of applying for individual broader powers, we joined with the other companies.

Q.—And did that bring about legislation? A.—It brought about I think the legislation of 1899.

Q.—Section 50? A.—Yes.

Q.—Were you one of the parties that supported that section? A.—Yes, I was.

Q.—Is it drawn as you think it should be drawn? A.—No, it is not.

Q.—What criticism of it do you offer? A.—That is a big question.

Q.—In a general way? A.—Some of these securities mentioned in it are not securities that life insurance companies should invest in.

Q.—What do you refer to? A.—For example, fire insurance stocks, navigation companies' stocks, there may be others.

Q.—If there are I wish you would indicate them, if you have them in mind? A.—If I had the Act I might go over it. Those are the only two.

Q.—That you think should be eliminated? A.—Well I would not say should be eliminated, but put it this way; I don't think a life insurance company should invest its funds in. It seems to me also that the powers might be stated in more general terms instead of enumerating a number of securities, that there might be some limitation put upon the class of security rather than to enumerate the various corporations which a company might invest in.

Q.—That has been considered, has it, by the Managers' Association? A.—Yes.

Q.—And you are the Secretary of that? Then we may take that up with you on another occasion later, and probably we had better not deal with it now. I see that in the following year, 1903, you bought Dominion Coal stock, and some Dominion Iron and Steel bonds again? A.—Yes.

Q.—When did you buy the bonds? A.—January the 2nd, 1903.

Q.—Would it be fair to say that the Dominion Iron and Steel bonds were taken out of your account at the end of the year and then taken in again in January? A.—I think so.

Q.—It was an arrangement to have them carried for you? A.—Yes.

Q.—How were they carried? A.—They were carried by Ames & Co.

Q.—And they gave you the price for them did they? A.—Yes, they gave us a cheque for them, carried them

39th day. June 11th, 1906.

Imperial Life (Mr. Bradshaw Ex'd).

over the end of the year, and then we took them up in the beginning of the year.

Q.—They purported to buy them from you at the end of the year? A.—Yes.

Q.—And then you purported to buy them back at the beginning of the year? A.—Yes.

Q.—The amounts do not seem to be the same? A.—No, we invested in $50,000 of them.

Q.—You bought Dominion Iron and Steel bonds? A.—Yes.

Q.—In 1903 you also bought Dominion Coal? A.—We did.

Q.—I notice that that transaction although it took place on March 16th, 1903, was not approved until June 29th, 1903. Can you say how that was? A.—I cannot.

Q.—Can you give any reason for it at all? A.—I cannot recall that. The only reason is that it may have been overlooked.

Q.—Was it bought with the authority of the Board? A.—Bought with the authority of the persons who had charge, to deal with it.

Q.—Was it an authorized investment so far as the rules and regulations of your company go, was it authorized to be bought in the regular order of business in your company? A.—Oh yes, certainly.

Q.—Was it bought for any particular purpose? A.—The idea of buying Dominion Coal was that it would prove an investment. It was then on an 8 per cent. guarantee basis and we thought the stock was a cheap stock at that price and would form a very good investment.

Q.—It was then on a falling market? At least it had been falling; I suppose on the day a thing is bought it cannot be said whether it is going to continue to fall, but it had been depreciating in value? A.—I cannot recall that.

Q.—You can assume that that was the fact in March, 1903. We have had a good deal of inquiry along that line. We have heard of other purchases of that same stock being made to support the market? A.—Well, this is so small that there could be absolutely nothing of that kind.

Q.—Still, if a number took a small amount it would help? A.—We had nothing at all to do with that.

Q.—Was it done in concert with other persons? A.—Absolutely, no.

Q.—It was not a syndicate or pool or as part of any negotiation with anyone else? A.—None whatever.

Q.—It was bought on its merits or demerits, whichever it may be, a transaction authorized by the Imperial Life for its own purposes? A.—Absolutely.

Q.—Do you know whether the purchase of the Dominion Iron and Steel bonds were approved? A.—Yes, there was a minute about that.

Q.—They were authorized by a minute of the company? A.—Yes.

Q.—You say Dominion Iron and Steel bonds were taken out of the account at the end of 1903. Did that happen at the end of 1904? A.—They were sold in 1903.

Q.—I thought there were still some standing till 1905. Was I wrong about that? A.—No, they were all sold in 1903.

Q.—And you have not had any since? A.—No. I may say just in regard to the word since, that during the past three years I don't think that there will be found to be any transactions in which anyone might criticize the company in the slightest degree.

Q.—1903 seems to have been a bad year all around. We seem to meet it every place. Have you altered your investments since 1903? A.—Altered them?

Q.—Changed your plan about investments? A.—At the present time 45 per cent. of our investments are in real estate mortgages. 8 per cent. in loans on collaterals, that is stock loans, 4 per cent. on policies. Between 1 and 2 per cent. on stocks owned. We have 24 per cent. in bonds and debentures. Interest and rents due and accrued amount to one per cent. Outstanding premiums 7 per cent. Other assets one per cent. So that at the present time practically 50 per cent. of our investments are in mortgages and nearly 25 per cent. in bonds and debentures.

Q.—How did they stand at the end of 1903 by comparison? A.—At the end of 1903 our mortgages were about 28 per cent. Our stocks 3 per cent., bonds and debentures 35 per cent., interest and rents about one per cent., outstanding premiums about 10 per cent., other assets about one per cent. We have rather shifted to mortgages on real estate.

Q.—The last of those Dominion Iron and Steel bonds were sold to whom? A.—It doesn't show here who bought the last lot, but just immediately before that, the Central Canada Loan.

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

Q.—I thought the Central Canada Loan bought the last lot, or the Dominion Securities Company? A.—They might have done that.

Q.—The last lot was $25,000. Will you explain the transaction whereby the Central Canada or Dominion Securities Company, whichever it was, took up the last lot? A.—It was done in the ordinary way of a sale to that company.

Q.—Was it at the market price? A.—No.

Q.—What price was it at? A.—At 88.

Q.—Why 88? A.—Because we got that price for them.

Q.—That was not the market price? A.—No, it was not.

Q.—Why did you get more or less than the market price? A.—Because at that time Dominion Iron and Steel bonds had a low rate.

Q.—What rate were they at about? A.—About 57¾.

Q.—And you sold them at 88 on December 30th, 1903? A.—Yes.

Q.—To the Dominoin Securities Corporation? A.—Or to the Central Canada, I am not sure which.

Q.—That would be the same thing? A.—Yes.

Q.—Why did you get 30 points more than the market price? A.—There is a difference in the date. I don't know whether the price on December 7th—

Q.—Was not 88 the price you paid for them? A.—It may have been. That may have been the resason why we sold them at that price.

Q.—Why would the Central Canada pay you the price you paid for those bonds? A.—Because they were going to suffer a loss on them.

Q.—Why didn't you take it? A.—They did not desire us to suffer a loss on them.

Q.—Why? A.—Because they were interested in the company.

Q.—As shareholders? A.—I suppose so.

Q.—Do you suggest it was because the Central Canada was a shareholder in the Imperial Life that it paid that 30 points? A.—I think that was the reason.

Q.—It still left a loss on the whole transaction? A.—Yes.

Q.—And a bigger loss had the Central Canada not been able to take up those at 88? A.—Yes, they had facilities for holding these securities and I presume they did hold them until they recovered in price.

Q.—Did you ever hear from those bonds again from the Central Canada? A.—No.

Q.—Was there any understanding that you were to recoup the Central Canada? A.—Absolutely no.

Q.—Did you ever carry through any arrangement with the Central Canada in any way by way of compensation to it? A.—Absolutely no.

Q.—If there has been a loss to the Central Canada the Central Canada has borne the loss? A.—Yes.

Q.—The sale to it at 88 was an out and out sale, and payment at that time? A.—Yes.

Q.—And the transaction was closed? A.—Closed at that time and it has never been opened up.

Q.—And cannot? A.—It cannot.

Q.—Even if suggested? A.—Even if suggested.

Q.—Besides the Dominion Iron and Steel bonds and Dominion Coal stock there was a loss on an Atlas Loan bond? A.—Mr. Wallace, the Manager of the Loan Company, arranged to take out an insurance of $25,000 on his life, provided we would take for the first 5 premiums bonds of the Atlas Loan Company representing the amount of that annual premium. That would be in 1902, I think.

Q.—On September 25th, 1901, "the Committee approved of the purchase of 5 debentures of the Atlas Loan Company of St. Thomas, Ontario, to the extent of the first 5 years premiums on Policy No. 6,085 issued by this company on the life of Mr. A. E. Wallace for $25,000. Each debenture is for $1,437.50 and bears interest at 4 per cent, payable half yearly." Then it gives the dates. The first debenture would run for 5 years, the second being purchased in the next year to run for 4 years, and so on? A.—Yes, the whole thing would run off in 5 years. We only took two debentures.

Q.—"An arrangement was made whereby the agents' renewal commission on the second, third, fourth and fifth year premiums shall be credited to interest on the debentures, the effect of which is that the investment yields the company 6 per cent." Was that Mr. Wallace's proposal? A.—It was carried through by our agent, Mr. R. G. Hamilton, in London. He had been seeking an insurance on Mr. Wallace's life for some time and

finally Mr. Wallace said, if the company would enter into this arrangement he would take the insurance.

Q.—You bought two debentures under that, did you? A.—Yes.

Q.—And one was paid and the other a loss? A.—No, neither one was paid.

Q.—I thought I remembered one Atlas Loan debenture being paid? A.—The loss is stated, whatever it was.

Q.—The loss is put down here at $1,139.20? A.—Yes, that would be after crediting the dividend received from the liquidators. That would be on the two debentures.

Q.—Then what was the object of that transaction being put through in that way, was that wholly at the request of Mr. Wallace that that was done. Was it Mr. Wallace's desire that the debentures should be taken in that way? A.—Yes.

Q.—He stipulated for that when he gave his application to Mr. Hamilton? A.—Yes.

Q.—And Mr. Hamilton passed on the application to you, and you decided to take it? A.—Yes.

Q.—Then those three losses, the loss on the Atlas Loan bonds and the Dominion Iron and Steel bonds amounted to $11,823.43? A.—Yes.

MR. LANGMUIR: Is the Policy of $25,000 still existing? A.—No, as soon as Mr. Wallace got into difficulties, it was not continued. There were only two years premiums paid on it.

MR. TILLEY: I notice in your minutes a resolution that no policy shall be issued for over $5,000 or no risk taken, for over $5,000? A.—Yes.

Q.—Does that mean that you would take a policy for over $5,000 and then re-insure? A.—No risk is insured on behalf of the company. That limit has been increased to 10,000.

Q.—Your agents at that time would be authorized though to take an application? A.—For any amount.

Q.—5, 10 or 25 thousand dollars? A.—Any amount.

Q.—And you would protect yourselves by re-insurance? A.—Yes.

Q.—Leaving not more than $5,000 risk on any policy? A.—5 or 10 as the case may be.

Q.—I suppose that was regarded as a prudent thing for a young company? A.—Yes.

(Adjourned at 2 p.m.)

AFTERNOON SESSION.

—Resumed at 2 P.M., June 11th, 1906.

—Examination of Mr. Bradshaw continued:

MR. TILLEY: Q.—Those securities, Mr. Bradshaw, in which there was a loss, were brought to your attention by the Department, were they not? A.—Yes.

Q.—As the result of their investigation? A.—Yes sir.

Q.—And what attitude did the Department take? A.—That the loss should be made good by the directors.

Q.—That is shown by the correspondence that is in exhibit 33 where Mr. Fitzgerald wrote you on March 10th, 1904? A.—Yes, I have the letter here.

Q.—On March 16th 200 shares of common stock of the Dominion Coal Company were purchased, and he refers to the loss of $2,619.23, and then he refers to the purchase of the bonds of the Iron & Steel Company, and to the loss there of $8,065? A.—Yes.

Q.—And adding these two together made $10,684.23 without interest and then he concludes his letter by stating that as the company could not legally invest in the securities named he is advised that the directors of the company are certainly liable to make good to the company the loss occasioned by such transactions, and he therefore says, I shall be glad to be informed that the amount so lost has been recouped by the said directors, so that the shareholders and the policyholders of the company may not suffer by reason of such unauthorized investments." That was accompanied by a letter to the President, Sir Mackenzie Bowell, of 1903, bringing the matter to his attention, and finally on the 25th June, 1904, you wrote to the Superintendent stating that the amount of the loss has been received by the company? A.—Yes.

Q.—Was that paid by the directors? A.—No.

Q.—Who was it paid by? A.—Senator Cox.

Q.—Senator Cox personally? A.—Yes.

Q.—And was it paid at about this time this letter of June 20th was written? A.—Yes.

Q.—Did the directors dispute their liability? A.—No. I will give the circumstances in connection with that. The President of the company is Sir Mackenzie Bowell, He had some cor-

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

respondence with the Superintendent of Insurance, and Sir Mackenzie discussed the matter with Senator Cox, and intimated to him that he proposed to bring the matter before the directors and arrange for its payment by them pro rata. At the request of Senator Cox this was not done, we stated that he personally preferred to pay the amount which he thereupon did.

Q.—Had Senator Cox any personal connection with those transactions? A.—No.

Q.—Why did he relieve the directors and pay the money himself? A.—I was not personally present at the interview; I have just got the statement of Sir Mackenzie Bowell of what took place, and only assumed he having a very large interest in the company that he took upon himself the responsibility of making good that amount.

Q.—Was it not because Senator Cox had a large interest in these companies, the Dominion Iron & Steel and the Dominion Coal? A.—I never heard that suggested.

Q.—You know he had at the time? A.—Yes sir, I knew he was a director of both companies.

Q.—Were the investments suggested by him originally? A.—No.

Q.—Did you make them? A.—No.

Q.—Who suggested them? A.—Discussed among the officers of the company at that time, which would be the Vice-President of the Company, Mr. Ames, the Managing Director and myself.

Q.—And between you three it was decided that the investments should be made? A.—Yes.

Q.—So that Mr. Cox had absolutely no responsibility at all? A.—No.

Q.—Did he pay it because Mr. Ames had suggested it? A.—I cannot say that.

Q.—Has that been discussed at all, that phase of it? A.—No, that phase of it has not been discussed; I have my own view about that.

Q.—Is that your view? A.—It is.

Q.—And at any rate he paid the money, has he been recouped? A.—No, there is no obligation on the part of the company whatever to recoup Senator Cox.

Q.—That was a voluntary payment? A.—Yes.

Q.—And an absolute payment? A.—Yes, and if it had not been made by him the directors would have been prepared to have made that payment.

Q.—Have the other directors signified they were ready to make the payment? A.—Some half a dozen of them who knew about the matter being brought up were prepared to pay their share and the others I presume also.

Q.—This same year there was a report made on Sao Paulo bonds that were written up, and Toronto Electric Light bonds written up, and Canadian Northern Railway bonds—by the way the Atlas Loan bonds, I suppose they were authorized security? A.—Yes.

Q.—There was no question raised about those with the Department? A.—No.

Q.—On those unauthorized securities we have just referred to there was a loss, on these steel bonds, not ultimately, because it was made good, but there was a loss which Senator Cox paid? A.—Yes.

Q.—Did the company deal in any other unauthorized securities on which it made a profit? A.—I have given you a list of all the profits made by the company, and by looking over those you will be able to find whether that is the case or not. There were very few unauthorized securities purchased. $1.34 on Canada Atlantic Railway bonds, $150.90 on Grand Trunk Pacific 4 per cent. sterling bonds. These are the only profits on unauthorized securities.

Q.—Were you aware when you purchased Grand Trunk Pacific bonds that they were unauthorized? A.—We were not, it was a mistake, and they were sold within one month after they were secured.

Q.—Does that account for the quick sale of them? A.—Yes, as soon as it came to our notice that they were unauthorized we disposed of them.

Q.—Mr. Fitzgerald wrote to you about the ledger values of securities on January 29th, 1904, after the annual statement was received? A.—Yes.

Q.—He points out there the manner you had adopted in writing up securities? A.—Yes.

Q.—What was that briefly, how had you treated it? A.—We had revalued the securities on a certain interest basis.

Q.—In the same way as you did the Kingston debentures? A.—Yes.

Q.—You wrote them to yield a certain rate of interest? A.—Yes.

Q.—How did you enter that in your returns? A.—I think they were entered under the synopsis of ledger accounts.

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

Q.—What Mr. Fitzgerald says in his letter is: "In looking over the statement of your company I find a number of changes have been made in the ledger values of securities by means probably of adding or deducting profit and loss items"? A.—Yes.

Q.—What does that mean, does that refresh your memory upon it? A.—The ledger balance of the securities at the end of 1902 had been changed to accord with the re-valuation.

Q.—So that you had written up the ledger value of the security in each case? A.—We had valued the securities, and the result was to increase the ledger value.

Q.—Then you have increased the ledger value of the asset by the amount it had appreciated in value in the market? A.—Yes.

Q.—Objection was taken to that way of doing it? A.—Yes.

Q.—What way did the Department think the change in value of the security should be shown? A.—When the security was sold.

Q.—And in the meantime in the annual statement was there any way indicated in which you could bring that increased value, if there was an increased value, into the statement? A.—Yes, there is an item asking for that information.

Q.—In what part of the statement would that be? A.—Under the heading "Other assets."

Q.—In the non-ledger assets? A.—Yes.

Q.—That is an asset that had not come into the ledger? A.—Yes.

Q.—The market value of stocks, bonds, debentures over value in the account? A.—Yes.

Q.—You had not entered it there? A.—No, it is a matter of opinion as to where it should be entered; immediately the Department called our attention to it we changed it.

Q.—In fact Mr. Fitzgerald suggests it is a disadvantage from your standpoint of showing that value; how have you done it in years since? A.—According to the Department's ruling.

Q.—That is to say where the market value changes you have shown that increased value under the heading of "Other assets"? A.—Yes.

Q.—And each year since that date you have taken credit under the heading "other assets" for any increased value of market value over the ledger value? A.—We valued what the Department desired us to do.

Q.—The ledger value in that case would show cost? A.—Yes.

Q.—Supposing there was a depreciation in the security, how would you deal with it? A.—We have not had that yet as far as my knowledge extends.

Q.—How could it be dealt with under these annual returns? A.—I suppose it would come in under the synopsis of ledger account, it could come in under that.

Q.—At any rate you have never had to deal with that? A.—Not that I know of.

Q.—Mr. Grant points out that it would come in in the same way, but it would be market value of stocks, bonds, debentures, less— A.—It would be a minus quantity.

Q.—Have you had any re-valuing of securities except on the occasion you had Mr. Stimson make the valuation for you? A.—I think so.

Q.—Not in all these years? A.—No.

Q.—And I think you had in 1903 and 1905? A.—Yes, I think we had for two or three years.

Q.—And since then you have dealt with it just in the way you have indicated? A.—In the way the Department calls for.

Q.—You purchased in 1903 Canada Atlantic Railway Bonds, did you treat those as being authorized? A.—At the time we thought they were authorized. In the investment clause railway bonds are permitted to be invested in by insurance companies, but there is a proviso that there shall have been paid on the stock of the railway company a dividend for a certain number of years. That proviso was overlooked, but when it came to our knowledge, at least I think when it came to our knowledge that this was an unauthorized investment that investment was disposed of.

Q.—You sold it in 1904 at a small profit? A.—Yes. $1.34.

Q.—There was one other transaction you had, and that I think is the only one I want to refer to in particular, and that is as to Electrical Development Bonds and stock, how did you become interested in those? A.—Through an underwriting of the bonds, we received the bonds at 90 with a bonus of stock.

Q.—Have you a separate copy of that underwriting agreement that I could put in? A.—I think the copy was furnished; I have not a copy here.

39th day, June 11th, 1906.

Q.—Is there a copy of the agreement you entered into at the time? A.—Yes.

Q.—Then they were called Toronto & Niagara Power Company bonds, with a stock bonus? A.—Yes.

Q.—You became interested in them in 1903? A.—I think so.

Q.—Have you carried them since? A.—Yes, we carried them until 1905.

Q.—You sold the stock in 1904? A.—Yes, I think the bonds in 1906.

Q.—That accounts for the sale not being shown in the returns to us? A.—Yes, they were sold in April of this year.

Q.—How did you treat the sale of the stock there? A.—As a profit on investment.

Q.—Leaving the cost of the bonds against the bonds only? A.—Yes, same as in the Sao Paulo.

Q.—You carried those bonds and stocks over the 31st December, 1903? A.—Yes.

Q.—Did you show the bonds in the annual statement? A.—Yes.

Q.—Did you show the stock? A.—I do not know I am sure. I may say that on the sale of the stock referred to part of the realized value was applied in reduction of the amount of bonds, and the other part carried to profit on investment.

Q.—You divided? A.—Yes, so as to bring down the value of the bonds to the market value as of the time of the sale of the stock.

Q.—Could you tell me whether you exhibited the stock in the annual return? A.—No, it is not shown here, but this book with which our Government statement was checked was seen by the Department officer, and that fully disclosed the stock as well as the bonds.

Q.—Please read—this is investment ledger number 2? A.—Folio 11. The heading is "Electrical Development Company of Ontario, Limited, showing an investment par value of bonds $50,000, book value $38,000," and at the heading of the account there are these words: "Bonus of 500 shares in the capital stock of the Electrical Development Company represented by certificate 1,073, in terms of the agreement as per minute book 2, folio 74. This stock was sold December 29th for $18, 875."

Q.—Is that entry now just the same as it was when that transaction was first put through, the stock shown in that same way? (Mr. Pickett speaks to Mr. Tilley.)

Imperial Life (Mr. Bradshaw Ex'd).

Q.—You say this entry you have read is an entry that has been transferred from Investment Ledger number 1 at page 21, and there it is shown, at the heading of the account, "Electrical bonds, certificate 1,073, for 500 shares in the capital stock of the above company"—is that the original entry? A.—Yes, that would be the original entry.

Q.—And was this item I have just read regarding the stock in the account when it was first opened up? A.—Yes.

Q.—And has remained there ever since? A.—Yes.

Q.—Did you show the other bonus stock you got with the Sao Paulo, I suppose you would not show that because that was sold before you actually paid out the money? A.—Yes.

Q.—You acquired those bonds of the Electrical Development Company under this agreement, which will be exhibit 24, and by it you agreed to pool for one year from the 1st January, 1903, all the bonds and stocks covered by the agreement, to be sold by a Committee for the benefit of all members of the pool rateably. (Reads down to the words "Mackenzie, Pellatt and Nicholls")—they were the parties to the agreement? A.—Yes.

Q.—(Continues reading from agreement exhibit 224, reads down to the figures "1903"). Under that agreement you had the option either to take up your bonds and stocks and not sell them for a year or else you were obliged to leave them in a pool, and submit them to be sold by certain persons appointed as managers, and if any sales were made you would get your pro rata share, but the price and other details would be settled by the managers? A.—Yes.

Q.—And by your minutes I notice you decided to leave them in the pool, not to withdraw? A.—Yes.

Q.—And that is the way you carried it through? A.—Yes; we afterwards withdrew that.

Q.—But then when you withdrew you would have to agree you would not sell them for a year from the 1st January, 1903? A.—There was no agreement entered into to that effect.

Q.—But this agreement would cover that? A.—Yes.

Q.—Do you think that is a proper and a prudent arrangement for an insurance company to enter into when it is investing money? A.—No, I do not.

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

Q.—You do not approve of it? A.—No.

Q.—Why? A.—Because I do not think a company should tie up its securities or its funds in that way.

Q.—Why did you do it? A.—We thought at the time it was a good investment.

Q.—And for that reason you entered into it, but looking at it from the present point of view you think that is— A.—Not only from the present, but very shortly after we entered into it I think all the directors realized it was not a transaction that they should have entered into, not that the security was not good.

Q.—Just the nature of the transaction? A.—Yes.

Q.—There were two or three reports put in at Ottawa, and I have referred to the first one which dealt with advances to agents; we said all that was to be said about that, but Mr. Blackadar goes on to say in the report, which is exhibit 21, that the "base of the reserve is stated to be Hm. 3½ per cent. and 3 per cent. for assurances," etc. (Reads down to the words "calculated by Hm. 3 per cent.")— As I remember it this 3½ per cent. and 3 per cent. did not refer to the thing quite? A.—No.

Q.—3½ per cent. was intended to refer to what? A.—That was intended to refer to the guarantee.

Q.—And the 3 per cent? A.—That was the guarantee in the contract.

Q.—Was not the guaranteed surrender value on the 3 per cent. basis? A.—Yes, and we had valued that guarantee on a 3½ per cent. basis.

Q.—And that is why you use the expression 3½ per cent? A.—Yes.

Q.—Then in exhibit 23 he refers to amount due for re-insurance $20,000; "This is re-insurance of a policy on the life of the late Senator Fulford in Confederation Life. I understand the Confederation disputes the claim, upon what ground I have not learned" has that claim been paid? A.—No.

Q.—What position is it at the present time? A.—It is in the hands of our solicitors.

Q.—And that was the dispute? A.—I think that is a matter I cannot enter into at present inasmuch as I think it would prejudice our position.

Q.—Can you tell me what dispute the Confederation raised? A.—That they were not liable under the policy.

Q.—By reason of what? A.—That there was no claim in their opinion, I have forgotten exactly the basis of the contention.

Q.—That there was no claim against you? A.—Yes.

Q.—That the policy did not constitute a claim against you? A.—Yes.

Q.—Was it in any sense a peculiar policy? A.—Yes.

Q.—What was the nature of it? A.—As I said before I do not think that that is a matter that should be enquired into at the present time inasmuch as it would prejudice our position in this matter.

Q.—Mr. Bradshaw, I do not want to prejudice your position with regard to litigation, but can you not tell me the nature of the policy just in the same way as if you had the policy here and showed it to us—I am not asking you to discuss the merits and demerits? A.—It was a contract—

Q.—Have you it here? A.—No.

Q.—Nor a copy of it? A.—No. It was a contract involving the payment of an annual amount for 25 years after Senator Fulford's death, and a final payment 26 years after his death. During his life time an annuity was to be paid to him.

Q.—The same amount as the payment after his death, was the annuity? A.—I think so.

Q.—How much was that? A.—The amount I think was $3,750.

Q.—Is that the annuity that ceased to be payable which comes into your profit and loss statement? A.—Yes.

Q.—Because I understand there was— A.—That was the annuity that comes into the profit and loss statement.

Q.—What was the consideration for that contract, what did the company get for it? A.—The consideration for that contract was a single payment of $100,000.

Q.—And then until Senator Fulford's death he was to get $3,750? A.—Yes.

Q.—And after his death for how many years? A.—For 25 years.

Q.—A similar sum? A.—Yes.

Q.—And then at the end of the 25 years? A.—$100,000.

Q.—The arrangement seems to be he paid $100.000 to the Imperial Life, at the time the contract was entered into, and he would get $3.750 from that until it was repaid back to him 25 years after his death? A.—That is what I have stated.

Q.—You then re-insured, did you? A.—I have already indicated that I do not think it is right for me to go

39th day, June 11th, 1906.

into the terms of that contract at the present time, inasmuch as it is a matter of litigation and it would prejudice our position.

Q.—I do not think I have asked you anything yet about the merits? A.—You are touching upon a matter I think that is—

Q.—Sub judice? A.—Yes.

Q.—The only other statement I wanted as an answer to the last question that you, as you thought at any rate, reinsured in the same way with the Confederation Life? A.—That is established.

MR. MALONE: There is no question; it is a legal contract, and we are going to enforce it.

MR. TILLEY: Q.—I suppose you could show us the contract with Senator Fulford, or the policy? A.—Have you not already seen it?

Q.—No? A.—I understood that that had been the case, not yourself, but that those partly connected with the Commission had seen it.

Q.—Can we see the contract? A.—Yes.

Q.—And have a copy of it? A.—Yes.

Q.—Is there any other insurance or contracts of any volume of that kind in the Imperial Life? A.—There is another contract similar to it.

Q.—One other that is not yet a claim? A.—Not yet a claim.

Q.—The person who obtained it is still alive? A.—Yes.

Q.—For what amount is that? A.—I think thirty or thirty-five thousand dollars.

Q.—And that constitutes all of that sort of transaction? A.—Yes.

Q.—Mr. Blackadar also refers to the loans to the Provident Investment & Mortgage Guarantee Company of $250,000; I think that was composed of two sums, one of $150,000, and the other $80,000? A.—Yes.

Q.—The $150,000 being on Metropolitan— A.—Metropolitan Bank stock.

Q.—And the $80,000 being on International Transit Company bonds? A.—Yes.

Q.—He says the Metropolitan Bank stock was in the name of trustees? A.—Yes

Q.—That I think, if I remember right, is authorized by your Act of Incorporation? A.—Both by our Act of Incorporation and by the Insurance Act.

Q.—Has that loan been paid off? A.—Yes.

Imperial Life (Mr. Bradshaw Ex'd).

Q.—That transaction is closed? A.—Yes.

Q.—And the International Transit Company's loan of $80,000, has that been paid? A.—No, that is still standing.

Q.—Is it a safe and proper loan, do you think? A.—Yes, it is a legal security, and the bonds are well secured.

Q.—Mr. Blackadar goes on in his report to give some information about that; what is the company? A.—It is an electric street railway company running between Sault Ste. Marie, Ontario, and the Sault Ste. Marie, Michigan.

Q.—Then there is some ferry company in connection with it? A.—Yes, running betwen the two places, and that is part of the security as well.

Q.—Are the bonds security on the whole enterprise? A.—Yes, on the Canadian and American side and on the ferry.

Q.—Is there any fund that is built up to apply on those bonds? A.—Yes, there is a sinking fund in the hands of the National Trust Company, and the mortgage provides for an annual payment of $6,290, and there is now in the hands of the Trust Company the sinking funds due for the past three years in respect of that security.

Q.—You say Mr. Blackadar in his report says that the five months, July to November, 1905, show a large increase in net earnings, $14,477.37, and the bonds considered to be good for the amount loaned upon them—I suppose that information would be got from you? A.—We furnished him with that information.

Q.—You believed it to be true? A.—Yes.

Q.—He also refers to some profits on sales of securities, Sao Paulo Railway Company, Dominion Bank stock, Bank of Commerce and Grand Trunk Pacific bonds, making a total gain of $4,418.26; and from that the loss on the British America Assurance stock you spoke of was deducted, leaving $462.01; then other stocks were sold; then he refers to I suppose the very thing you mentioned this morning, that the increase in assets during the year has been altogether in mortgage loans on real estate? A.—Yes.

Q.—I notice that a number of your loans are taken with insurance policies as an additional security? A.—No, not as an additional security.

39th day, June 11th, 1906.

Imperial Life (Mr. Bradshaw Ex'd).

Q.—You require the mortgagor to take out insurance? A.—No.

Q.—What is the transaction? A.—This is the transaction; where the borrower desires insurance, where the borrower applies for life insurance at the same time we may make a smaller rate of interest, put the loan through at a smaller rate of interest. We have never exacted life insurance in connection with any loan, we never treated it as security for a loan. The loans are treated on their merits. That is on the valuation of the property. You will see frequent reference in the minute books to releases of insurance policies as the consideration, showing we attach no importance at all to the security for the loan.

Q.— I noticed that where the property is sold? A.—Yes.

Q.—Or where the property changed hands? A.—Yes.

Q.—Who values the property where you put through that sort of a transaction? A.—Our loan manager.

Q.—Your loan manager where? A.—In Brandon.

Q.—I think most of your transactions of that kind are in the West? A.—Yes.

Q.—And on these loans you get good rates of interest? A.—From 6 to 7 per cent.

Q.—Who is your loan manager? A.—Robert Hall.

Q.—Who is your agent? A.—He is our agent and loan manager.

Q.—Who is Mr. Cooper? A.—He is a valuator.

Q.—In your employ, or is he a separate valuator being paid according to fees for the work he does? A.—Mr. Cooper is Secretary of the National Trust Company of Winnipeg, and all of our loans prior to first February, 1906, passed through his hands in order that he might secure the benefit of his opinion in respect thereof.

Q.—I notice at the foot of the statement to the application would be a statement that Mr. Cooper recommends the loan for the full amount or part of the loan? A.—Yes.

Q.—Mr. Cooper is not your Western Manager? A.—No.

Q.—Was he at one time? A.—He was at one time our representative in Winnipeg.

Q.—Mr. Hall is your agent? A.—He is our loan agent.

Q.—Does he get commissions on insurance? A.—He does when he gets any, but his applications for insurance are very few and far between.

Q.—A person comes to Mr. Hall for a loan on real estate—application is made to him? A.—Yes, or to his agents.

Q.—He fills out I suppose a regular form? A.—Yes.

Q.—Does he then arrange for insurance if he can at the same time?? A.—No, I do not think so.

Q.—He sends on the application then to you after having Mr. Cooper approve of it? A.—I may say Mr. Hall is on a salary basis, so that he has no interest in putting a loan through that is not a first-class loan on its merits.

Q.—Is any commission paid with respect to those policies? A.—Yes, paid to him when he secures them.

Q.—The commission on the policy is paid to Hall? A.—Yes.

Q.—He is not paid anything for the loans? A.—No.

Q.—But he is on the policy? A.—When he secures a policy.

Q.—When he secures a policy along with it? A.—Yes.

Q.—What salary does he get? A.—I think it is $3,000 per annum.

Q.—And he gets some insurance commissions as well? A.—Very, very small indeed, they amount to a very small item.

Q.—He does not get a policy unless the loan goes through; he won't be able to carry through his insurance and get this commission on the policy unless the applicant gets the loan? A.—Not if there is an arrangement of that kind with the applicant.

Q.—Don't you think that is objectionable? A.—The transactions are so very few.

Q.—They would appear to be numerous in the minute book, but I thought there were quite a few of them? A.—We do not think that the life insurance feature has ever prejudiced his view in regard to the matter of a loan. I think it is well known that Mr. Robert Hall is one of the best loan representatives of any company in Western Canada. He has had an experience of 23 years; he was Western representative of the Trust & Loan Company.

Q.—Tell me what has been your experience with regard to losses on loans throughout the region where he has been agent? A.—All of our loans have come through Mr. Robert Hall. He has been our representative for the past seven and a half years. We have put out there about a million and a half of money, we have had two foreclosures in eight years in that

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

time. In both of those cases we have had to pay to the original owner of the property over $1,000 in each case. The amount of interest outstanding at the end of last year was a very, very small fraction of the interest due.

Q.—You think the transactions he has put the company into, so to speak, have been on their merits, and have not been at all because of any commission he might get on the premiums of policies? A.—Not at all.

Q.—That might apply to Mr. Hall, do you think that it is a good method for general application with insurance companies? A.—No, I do not think if it were general we would allow such a thing to continue, but it is not general.

Q.—You think with Mr. Hall— A. —He is essentially a loan man, he is not a life insurance man, never was.

Q.—One other exhibit was put in, number 27, and there Mr. Blackadar refers to the amount of the not-taken policies in some companies, and he refers to your company, saying that of your 1905 issues there were 135 amounting to $224,427 and not taken of previous years 438, amounting to $575,601, that is the total not-taken policies in that year, I think he was referring to 1905 year? A.—Yes.

Q.—573 in number, amount $800,-028? A.—Yes.

Q.—And he also refers to the North American Life, and brought out about a similar result there, making nearly $600,000 in the case of the Imperial and over $600,000 in the case of the North American Life, reported in previous years as taken upon which no cash has been received, thus making the showing more favorable to those companies than to those which reported business paid for in cash value? A.—I think that does not only apply to those companies, it applies to other companies.

Q.—Yes, the report is a report made apparently with regard to the form of the return, rather than any particular company's business?— A.—Yes; I think the return should be amended if the information is desired in some other way. We were simply complying with the terms of the blank.

Q.—The form should be amended by asking for the amount of policies reported during the year and paid for in cash? A.—I think that would be a good amendment.

Q.—There appears to be with your and other companies a large amount of not-taken policies? A.—That is brought about by people changing their mind; at the time they insure they go through the form of application, and the medical examination, and then when the policy is presented they change their minds for various reasons.

Q.—In the meantime nothing has been paid? A.—A.—No.

Q.—If any thing at all has been paid it goes into the lapse class? A. —Yes.

Q.—Would it not be well to have some payment made at the time the application is signed? A.—If it could be obtained it would be very desirable.

Q.—Is it a practice that any companies adopt? A.—No, I do not know that any company has adopted that practice; we always instruct our agents to endeavor to get a payment at the time the application is made, but there is no company which insists upon payment being made at the time the application is made.

Q.—Is it necessary to treat that as an issued policy until some payment has been made? A.—Take yourself for example, if you are entering into a contract and you desire to know the merits of the company before you pay any amount on it, and there may be something in the contract that does not quite meet with your approval when you get it.

Q.—In the meantime because the policy has been written and the party examined it must be treated as a policy? A.—Yes. It is a policy issued; for example we send it out to Vancouver, we do not know whether that policy will be taken or not.

Q.—I suppose you will have to show what is done in that direction probably as part of your justification for expenses of medical examination, that would be all expense the company would have to pay? A.—We have to have our applicants medically examined before we can issue the policy.

Q.—Do you know of any cases where applications have been written purposely for the purpose of getting the number of policies issued to swell up? A.—I can only speak of the Imperial Life; it has never been done in the Imperial Life.

Q.—No policy has ever been written towards the end of the year with that purpose in view? A.—On the contrary we have been very exact, we have been opposed to that principle.

Q.—In exhibit 33 that I was referring to, Mr. Blackadar, goes on, after setting out the items you had written

up and the losses you had incurred and says that there had been added to interest account and written off to profit and loss $1,247.04, and expended on office furniture and written off to profit and loss, instead of being entered in expense account $2,319.73; and taking these two items with the losses incurred on the Atlas Loan, Dominion Coal and Dominion Iron & Steel stocks and bonds, they make together $15,390.20; and deducting that from the total you have written up left $847.87, and that balance he says was entered in the statement as appreciation of securities, is that the way it was done? A.—I presume so if that is Mr. Blackadar's report.

Q.—That is his report; he then made certain corrections in the report; why was the item of $1,247.04 added to interest account and writen off profit and loss in that way? A.—I do not remember.

Q.—It was not an item of cash received for interest? A.—I do not remember the details of it.

Q.—He says here, added to interest account $1,247.04, that is, as I understand, adding to interest account in respect of an item that was not received in actual cash and that you wrote off to profit and loss? A.—That refers to the Atlas Loan matter, Dominion Iron & Steel and Dominion Coal.

Q.—It represented the interest that had accumulated on those investments? A.—Yes.

Q.—It was not an item of interest that had ever been received in respect of this? A.—No.

Q.—And therefore it should not have been credited as cash received? A.—Not on those investments.

Q.—Or on any investment? A.—No.

Q.—It was not received at all? A.—No.

Q.—Expended on office furniture, but written off to profit and loss account, that should have been shown in cash paid for office furniture, should it not? A.—Yes. It was not with any intention of getting away from the Department's method of keeping record of these things, it was through I think lack of knowledge on our part of the way in which it was desired these should be shown.

Q.—The result was that you showed an item of $847.87 as appreciation in securities, and that was made up by over $16,000 appreciation in securities, and then charged against it the losses on these other securities? A.—Yes.

Q.—And the result is you did not show in your return the losses on these unauthorized securities? A.—Not in that way.

Q.—Not in any way, because this statement would not get into the report at all? A.—No.

Q.—Then when Mr. Blackadar would inspect your books to get this $847.87 would you show him how it was made up? A.—We would show him everything.

Q.—Would that be something which he would have to see when he was checking that item? A.—I think so.

Q.—You do not remember? A.—No, I cannot remember.

Q.—The proper way to have done it was to have shown the appreciation in securities? A.—I do not think that is the proper way, because it is a matter of opinion. We thought the way we reported was the right way, and when it was shown to us that was not the way we immediately changed our statement to accord with what the Department desired us to show.

Q.—Can you say you would be under any misapprehension as to the proper way after reading over the schedule of information that the Department desires you to make under oath as to the business of the year? A.—Yes, I think as given in Mr. Fitzgerald's evidence, he said he found about 600 corrections in the reports of life insurance companie s. That statement going without any examination would indicate there had been a great many errors made by life insurance companies, but as a matter of fact it will be found upon investigation that those were not errors committeed on purpose, but that they were errors of judgment.

Q.—The result was at any rate out of the return the losses on these investments? A.—That was not the object, that was the result.

Q.—You say that was not your object in doing it that way? A.—No, because that item would be investigated by Mr. Blackadar's in order that it might be determined how it was made up.

Q.—He goes on and refers to Dominion Coal, Dominion Steel which you have spoken about and the losses were paid on? A.—Yes.

Q.—And he refers also to the Metropolitan Bank stock, that is the same stock upon which the Provident Com-

39th day, June 11th, 1906.

Imperial Life (Mr. Bradshaw Ex'd).

pany subsequently got the loan of \$150,000? A.—Yes.

Q.—And he refers here that "By an arrangement of the directors this stock has been sold without loss to the company in either principal or interest," etc. (reads down to the words "into interest column")—was that \$209,000 more than the current market price of the stock at that time? A.—Yes.

Q.—Was there any obligation on the purchaser of the stock to pay more than the market price? A.—No.

Q.—Why was it paid? A.—The amount was paid by Mr. Ames.

Q.—Without any obligation being on him to pay more than the market price? A.—Yes, I think he felt some responsibility in regard to the investment.

Q.—Having introduced the investment he took it from the company at \$209,000 which was more than the market value of it? A.—Yes.

Q.—Now, you have submitted a profit and loss statement for the year 1905 have you not? A.—Yes.

MR. LANGMUIR: Before you leave the question of investment, I would like to have your views as to that Fulford policy; do you consider that a sound method of insurance? A.—Yes, both from the standpoint of the assured and from the standpoint of the company.

Q.—You undertook to pay 3¾ per cent. during the life time of the insured, and for 25 years thereafter? A.—Yes.

Q.—Last year the average rate on all your investments was about 5.35? A.—5½.

Q.—Consequently you would make on that about 1.40? A.—Yes.

Q.—He might have lived another 25 years? A.—Yes.

Q.—So that you practically undertook to pay 3¾ per cent. for 26 years, and possibly 25 years longer? A.—Yes, but we had a guarantee at the back of that, in regard to re-insurance.

Q.—Do you in a case of that kind create a sinking fund? A.—Every year.

Q.—You lay it aside? A.—Yes, lay it aside on that particular policy on a strictly actuarial basis, and that is checked by the Department.

Q.—Did you consider it safe both from the standpoint of the company and also for the assured—it looks to me a little too much like an investment, more as an investment agency, or as an investment business than a life insurance business. That is all, I just wanted your view upon that.

MR. TILLEY: Q.—Mr. Blake asks me to ask you for a statement of the losses and profits, the net result of losses and profits on your investments? A.—I would like at this stage to be permitted not only for myself but also for the directors of the Imperial Life Assurance Company, the President and Vice-President and Directors to be permitted to make a statement. In the conduct of a fairly large business extending over a good number of years it will happen that errors of judgment, and sometimes what may even be termed irregularities will occur. Where such have appeared I have not hesitated to acknowledge these, but there is another view point which I do not think this Investigation has taken notice of, but which it appears to me is in the interest of the policyholders and the public to make public. Although the Imperial Life is a comparatively small company and its figures are not as large as some of the other offices it has during the past eight years, apart from loans to policyholders made as evidenced by the returns of this Commission call loans amounting to over a million and a half of money, it has purchased securities of over a million and a half, it has sold securities of about three-quarters of a million, and it has made mortgage loans of over one million and a half.

MR. BLAKE: Q.—What is the total of that? A.—The total of those figures is about five millions of money. What has been the net result of all these transactions? The actual cash losses made in respect of them amounted to \$4,124, apart from the loss on Dominion Coal and Dominion Iron & Steel, the actual cash profits realized over and above interest amounted to \$34,846, the average rate of interest earned has varied from 4.01 in 1897 to 4.68 in 1900, 5.37 in 1902, 5.52 in 1905 or an average between 1897 and 1905 of 5.15. On December 1st, 1905, our total assets according to the company's own statement amounted to \$2,828,000; invested, as I said this morning 45 per cent. in mortgage, 4 per cent. in loans on policies, 1 per cent. in stocks, about 8 per cent. loans on collaterals, 24 per cent. in bonds and debentures, 1 per cent. in other assets, 7 per cent. in outstanding premiums, 1 per cent. in interest, and about between 6 and 7 per cent. in cash on hand. Our assets in our own valuation amount to

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

$2,828,000, while in the report to the Government as called for it amounts to $2,840,000; that is to say, we have taken a more conservative view than the Government has by some $12,000.

MR. TILLEY: Then Mr. Blake asked me to ask you to make a further statement as to what transpired on the first June, 1903, when the transaction that we spoke about this morning was put through, is there anything further you can say about that? A.—At that time we were dealing with men who were well-known, and who are well known to-day to be wealthy men, and in treating with a transaction with these men we would not so specifically scrutinize the transaction as we would if we were dealing with men who had not established wealth and reputation.

Q.—What men? A.—I refer to the Hon. Mr. Cox, and in previous transactions to Mr. Flavelle, and prior to June, 1903, to Mr. Ames. He was a man whom we all believed to have very great wealth, and no one was more surprised than I was when I learned with very much regret indeed of his difficulties.

MR. BLAKE: How long did you hear of that before the difficulty? A. —I think it was a few days before the close of May, it may have been about the middle of May; I had no idea whatever before that time that there was any trouble.

MR. TILLEY: Q.—As to the particular transaction on the 1st June, 1903, when that transaction we referred to this morning was put through, what can you say, if anything, as to what was said at that time—

MR. BLAKE: Q.—What was the proposal made, how was it carried out, and what was the end of it? A.—The directors understood it was a loan, they passed it as a loan, they treated it as a loan.

MR. TILLEY: Mr. Blake asks what proposal was made to the directors, what acceptance was given and so on, if you cannot say what was said at the time I do not know that we can advance it beyond what you did this morning, because you told us all about the understanding this morning; can you tell us anything more this afternoon as to what was said at that time by Mr. Ames in proposing it, or by you in accepting it or anything of that kind? A.—It was proposed as a loan, it was treated by us as a loan, it was understood by me and the other directors as a loan, and it was treated in our records as a loan.

Q.—But you cannot say anything further than that as to what was said at the time? A.—No. Since this morning I had an opportunity at lunch, I saw one of our auditors accidentally, I did not go there purposely to see him, I asked him if he had any recollection whatever concerning the entry ot the minute in December, 1903.

Q.—Which auditor was that? A.—Mr. John McKay, and he said he thought he had some recollection, and he would look it up when he returned to his office, and since coming here this afternoon I have received this memorandum. (Hands memorandum to Mr. Tilley.)

—Mr. Tilley reads the memorandum of Mr. John McKay. Memorandum marked as Exhibit 225.

Q.—Mr. Blake desires to know when you first heard of this transaction having been spoken of in any way as a purchase? A.—It was I think when the auditor called attention to it.

MR. BLAKE: That was in December, 1903? A.—Yes.

MR. TILLEY: I suppose I might say that if any of the directors or persons whose names are mentioned in connection with any of these transactions in connection with this company or any other company desire to in any way state their position to the Board of course they would be given every opportunity of doing so.

Q.—That is your profit and loss statement? A.—Yes.

—Profit and loss statement marked as exhibit 226.

Q.—This is the statement of the profit and loss for the year 1905 made up on the forms submitted by the Commission? (Exhibit 226)? A.—Yes.

Q.—It shows the loading on the first year premium to be $31,747, the net expected death losses in the year 1905 in respect of policies issued in that year $17,093. Then, less the net actual death losses in that year in respect of such policies $6,474, making $10,619; that is a gain in the mortality of $10,619? A.—Yes.

Q.—The total margins on the first year premiums, 1905, $42,316? A.—Yes.

Q.—And less expense as per schedule first year $181,975, making a loss in respect of the first year business of $139,609? A.—Yes.

Q.—Then that is a large excess of cost over the margin available for new business, is it not? A.—It is a normal amount.

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

Q.—What percentage would that be —I am told the percentage of cost to the margins would be about 430 per cent? A.—I presume that would be about right.

Q.—Is that a fair basis of comparison there between costs and expenses of the first year, or have you any criticism to offer on that? A.—The expenses of the company have not been divided in this book so as to distinguish first year costs and renewal cost, and therefore the statement in regard to the expenses of the first year is merely an approximation. We have taken a method which has some reputation, namely that expenditure in connection with new premiums is ten times the expenditure on renewal premiums, ten times per cent—

Q.—Of course that is arbitrary? A. —That is very arbitrary, and it may be that if we had been able to keep an account of the expenses incident to the first year's business this amount may have been less or may have been greater.

Q.—You have just divided your expenses in that arbitrary fashion? A. —Yes.

Q.—Then you have set out the total expenses less the investment expenses in that first schedule, and shown how much was paid for commissions, salaries and other like expenses? A.—Yes.

Q.—And also for taxes, and advertising, the total expenses coming to $243,032.27? A.—Yes.

Q.—And then you make an adjustment for commissions due and outstanding 1905, less commissions due and outstanding 1904, on premiums paid in 1905, and for general expenses due and outstanding 1905, less general expenses due and outstanding 1904? A.—Yes.

Q.—Bringing the balance to $252,-042.27? A.—Yes.

Q.—And of that you have apportioned $181,975 for first year expenses? A.—Yes.

Q.—Other than that have you credit in that statement for all your first year margins, or have you any criticism to offer that part of your margins would be in the following years? A.—In respect of the loadings?

Q.—Yes, or have you made allowance for that in this statement? A. —There has been no allowance made for that.

Q.—Have you all the loadings that should be applied to that first year credited too on your item of loading here? A.—There is added to the net premium for expense on the average from 20 to 33 per cent., and the cost of placing a new policy in the books of the company varies from three to four years' loading, and therefore, it takes between three and four years before a policy begins to earn surplus. We have in the conduct of our new business anticipated our loadings between three and four years.

Q.—You say it takes three or four years, that is on the basis of your earning power in your company? A. —Yes.

Q.—Which in the last few years has been a high rate of interest? A.— Yes, a high rate of interest.

Q.—So that in that respect it is very favorable? A.—Yes.

Q.—Other than that it would take much longer? A.—Yes, the lower the rate of interest and the higher the rate of mortality the longer it would take for a policy to be sustaining.

Q.—You speak of that showing for first year business as being about the average? A.—I cannot say whether it is the average of other companies or not, it is I would think an average showing, we have not a gain and a loss exhibit in Canada, and, therefore, it is impossible to determine whether that is a favorable or unfavorable state of affairs.

Q.—There has been no regulation under the Insurance Act here that companies should hand in to the department each year a gain and loss exhibit? A.—No.

Q.—Do you think that is something that should be done? A.—Yes, I would give that my very hearty approval.

Q.—It is a requirement of some of the States? A.—Yes.

Q.—And you think it should be adopted here? A.—Yes, for one reason especially, I think it would assist the company in determining how fast they were going, it would assist them to determine where their profits came from, or where their losses came from, and I think it would have a magnificent educational effect upon the managers of life companies and I think also it would be beneficial in the interest of policyholders and the public generally.

Q.—It would show them I suppose usually that the losses come from expense of the first year business? A.— It would just depend on how the gain and loss exhibit were required to be made out.

Q.—It should be made out with that point in view, at any rate should

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

it not, as to the cost of new business—I am not saying that is the only thing to be considered? A.—It might be very desirable to have that in view; there might then be some rivalry amongst the companies to get down the cost of the securing of new business.

Q.—Has your company been making every effort to get down that cost of new business? A.—Yes, we have been doing all that we could do, the cost I think is mostly associated with the field work.

Q.—With the high commissions paid? A.—Yes.

Q.—And has the basis of commission increased in your day much? A.—Yes, very considerably; when I went into the business, although quite a boy, I remember the commissions then were forty per cent.; that was regarded as the maximum commission; they have steadily increased until they are 60, 65 and even higher than that.

Q.—75 per cent? A.—Yes, for brokerage, that is no renewals.

Q.—Has the tendency been to do away with commissions on renewal business and make it more commission entirely on the first year business? A.—I have not noticed that tendency if there is such a tendency.

Q.—What has been the cause of these higher commissions? A.—I think one, the strivings of the companies to write a large volume of business; secondly, I think the competition has induced the companies to pay more for the business than I think they should have paid; and thirdly, I think that rebates have had a great deal to do with the increase in the cost.

Q.—Why do you say rebating has had anything to do with the increase in the cost? A.—An agent if he is on salary is not, of course, permitted to rebate; if he comes across a risk and he can only secure it by a rebate then he is being really paid twice for the business he secures, once by salary and once by commission. If the agent pays the rebate out of his own pocket he comes to his company at a certain time and intimates that he is not making a sufficient amount to live on, with the effect that the companies have gradually increased the remuneration to some agents.

Q.—Have you adopted a system of paying agents by a salary? A.—No, we have not; we pay agents by salaries and by commissions; I think that the only proper way to pay agents is by commission, for the reason that then you will be able to determine the actual cost of your business; if you pay an agent by salary he is several months with you before you can determine whether he is paying or not, and you may make quite a serious loss with him; if he is being paid by commissions your expenses will not be greater than the commissions which you allow him. I think that is also borne out in the experience of two companies which I think are regarded as being the best conducted companies in the United States; I understand the North-West Mutual Life pays its agents only by commissions, and I think that statement is correct in regard to that accident company, the Mutual Benefit Life of New Jersey. Those two companies have about as low an expense rate as any other companies in the United States.

Q.—You would not agree with some of the witnesses we have had who think it would be desirable to pay agents more by salary than by commission? A.—I would not agree.

Q.—It has been said by some that it would have the tendency to stop rebating? A.—I do not think that that would stop rebating; some companies have paid their agents by salaries, and I think rebating has not stopped; it has not decreased in late years; if anything I think it has increased.

Q.—Does your company ever receive any policies on which commission is not paid to any person? A.—In the first policies the Imperial Life ever issued on the lives of its directors, it amounted to a very large sum, probably two or three hundred thousand dollars, not one dollar of commission was paid on those policies.

Q.—Nor allowed to the assured? A.—Nor allowed to the assured in any shape or form, they all came to the company free of cost; neither have our directors been allowed any renewal commission, no officer of the company has been allowed any renewal commission on his premium, and has not received any renewal commission on his premium.

Q.—Since the first writing up when the company was formed have you got any policies without any commissions being payable, either coming into your head office direct or in any other way? A.—Not very many, a few, but very very few.

Q.—How would they come to you, those you did get? A.—Friends of the company, friends of the officers.

Q.—Would send in applications? A.—Yes, or they would come and inform

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

the officers, and intimate they proposed to place insurance on their lives, and they would pay the full premium.

Q.—The applicant then would pay the full premium? A.—Yes.

Q.—And nothing go to the person who introduced them? A.—I am speaking about the applicant coming direct to the company or direct to the officer of the company.

Q.—The full premium would be paid? A.—Yes.

Q.—No rebate has been allowed to the applicant himself from the office? A.—Coming direct?

Q.—Yes? A.—Yes.

Q.—Is that the rule or is it the rule to pay full premium? A.—We endeavor in every instance to get the full premium, where we find that a man knows there is a commission to be allowed, and where he has been offered it and states that he won't insure with us unless he gets it, then we do not lose him.

Q.—Then you say your company has allowed rebates not merely through agents but on business coming to the office and the office knowing about it? A.—The same as every company in Canada has done.

Q.—Other companies, we have had here, some of them have said it would not come under the personal notice of the manager? A.—I think that every manager knows very well that rebates are allowed, and that they must have personal actual knowledge of such condition.

Q.—Do I understand that if a person goes into the Imperial Life Assurance Company and presents himself for a policy—does that ever happen in the first place? A.—Yes, that happens.

Q.—And he presents himself for a policy, he is passed by the medical examiner, and then when the question of the first premium comes up, if he asks for a rebate or something off, and insists on it he would get it? A.—Yes.

Q.—Amounting to what? A.—We endeavor to make it as low as we possibly can, but we never go beyond our maximum rate of commission, which is a graded commission starting from 20 per cent. on some plans and running up to 60 per cent. on others; we have a brokerage rate which we do not pay to business which is introduced to the company in that way.

Q.—So that the highest rebate you would allow then would be 65 per cent.? A.—No, 60 per cent. on a whole life policy, and if it were a ten payment life policy it would be thirty or thirty-five.

Q.—So that the office would allow that rebate direct? A.—Yes because it would be forced to do it by competition.

Q.—Do you mean to say that some person could go to other offices and be treated in the same way? A.—He tells us he has had an offer, and he mentions the company and the agent.

Q.—I can quite understand an agent doing that, but I am talking about the head office of the company doing it? A.—I am speaking of the applicant coming direct to our office and mentioning it to us that the offer of rebate has been made by another office or by another agent, an agent of another company.

Q.—And if you feel it is necessary, that is I suppose the way to put it, if you feel it is necessary to get a policy you do not hesitate giving him the amount of the commission you would have to pay an agent to write that policy? A.—We do it reluctantly.

Q.—But you do it? A.—Yes.

Q.—And you say 60 is the highest you ever allowed that way? A.—So far as my knowledge extends.

Q.—What does it amount to in dollars and cents a year? A.—It depends on the class of insurance, and the age.

Q.—Could you give any average? A.—Take $30 premium, that would amount to $18.

Q.—I am speaking of an average for a year's business? A.—People coming direct?

Q.—Yes? A.—I suppose we would probably have a dozen persons during the year applying direct for life insurance.

Q.—Is it right to say you would never have a person come to you direct that was not rather getting bids on insurance? A.—I should say probably one-quarter of those would not have any commission allowed, and the other three-quarters would.

Q.—And I suppose that three-quarters it would be safe to say were probably going around? A.—May be.

Q.—Getting tenders? A.—May be.

Q.—That is a bad state of affairs? A.—Yes.

Q.—What routine must an application such as that go through before the rebate is permitted; who would such a person see in the office? A.—The managing director, or myself, or one of the other officers.

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

Q.—And how many persons in the office would be authorized to grant the rebate? A.—The four officers mentioned, the managing director, myself, assistant secretary or assistant actuary.

Q.—Who is the assistant secretary? A.—Mr. Pickett, and Mr. Moore is the assistant actuary.

Q.—So that every one of those four would be authorized to grant the rebate? A.—Yes.

Q.—How would it be granted, by his giving a cheque for the balance or by his giving a cheque for the full premium and getting a cheque back? A.—In some instances it would be by giving a cheque for the full amount, and we giving our cheque back, or else by the applicant simply giving a cheque for the difference, and his receipt taken for the balance.

Q.—Do you ever make any allowance to agents who have granted rebates—supposing an agent comes to you and says, I can write So-and-So for a policy for five or ten thousand dollars, and the commission that you will allow to me is 60 or 65 per cent., but I have to give him that 60 or 65 per cent., because John Smith, the agent for another company is offering him that rebate; I want you to give me my commission over and above that rebate? A.—No, we do not do that. This may have occurred; his commission may have been 60 per cent. and the agent says, "I have to allow 60 per cent. to the applicant, and I will secure this business for you if you give me an extra 5 per cent." I think there are very, very few cases in which that has taken place.

Q.—But there are some? A.—I think so, I could not name you one, but it seems to me that runs through my mind.

Q.—In that way you would get the commission to the agent up to 65, and I suppose higher than that? A.—Not much higher than that.

Q.—Has not the applicant sometimes paid in that premium and the company got no benefit from the premium at all by reason of rebates to the applicant and extra allowances to the agent and so on? A.—Never.

Q.—You think in no case has the whole first premium been used up? A.—Never; that is in commissions; we may have paid a man a salary, and as the result of his operations he has not earned it, and it has cost us more than the first year's premium.

Q.—I was not asking about that; you say in commissions at any rate it would never be used up? A.—No.

Q.—So far as the Imperial Life Insurance Company is concerned it has, whether by force or otherwise, recognized rebating? A.—It does not recognize rebating, but it has been forced to recognize it.

Q.—I do not quite understand it? A.—What I mean to say is this, that we do not approve of rebating, we do everything we possibly can against rebating.

Q.—Except stopping it in your own company? A.—Which would mean we would have to stop business.

Q.—You would have to stop some of this business that comes into the head office? A.—Not only that——

Q.—There is a fairly small volume of business that comes in direct to the head office? A.—Yes.

Q.—Don't you think the allowing of the rebate from the head office in that way to persons coming in is the worst possible thing that could happen in connection with the rebating system, does not that give it more encouragement? A.—I can see no difference between allowing it in the office and an agent allowing it.

Q.—Does it not give it the stamp of approval it otherwise would not get? A.—All the offices know about it, even their agents allowing the rebate, and if an applicant were to come to us and we said to him, We do not approve of rebating, and we do not give rebates, we would be placing ourselves in a false position, bcause we do know our agents give rebates.

Q.—It is one thing for an agent to give a rebate, but it is another thing entirely for the company to so far approve of it as to give a rebate direct? A.—I cannot see any difference.

Q.—At any rate it is needless to ask you whether you have ever told your agents they must not rebate? A.—We have done it over and over again, we have told them never to rebate unless they are compelled to.

Q.—Would you need to tell them that? A.—Probably not.

Q.—I understand you to say that you are one of the four who are authorized to give the rebate in your office? A.—Yes.

Q.—I suppose you exercised your privilege? A.—I have done it several times, and I think every manager of a life insurance company in Canada has done the same thing irrespective of any other evidence given to the contrary. As to the merits of rebat-

ing, I have only one opinion, I think it is absolutely wrong.

MR. BLAKE: You always tell them never to do it again? A.—It is very unfair; it is inequitable, certain classes of policyholders should receive rebates and others do not; it is very unfair to the policyholders who do not receive rebates.

Q.—That seems to be the consensus of opinion, but it seems hard to get any person started in the way of stamping it out? A.—In that connection I would like to say this, that strong efforts have been made to stamp out rebating. Efforts have been made by the companies acting by themselves, for themselves, and also acting in concert. The companies have also endeavored to secure legislation on the subject, not once, but two or three times. The Legisatures do not appear to give us much assistance or encouragement. It was only at the last session of the Ontario Legislature that the Canadian Life Officers' Association sought a law to do away with rebating, the Association believing that if such a law were placed upon the statute books of Ontario it might be extended to other Provinces in Canada, and thus eradicate the system of rebating. The Canadian companies have endeavored to stop rebating, but they found it was useless unless the American and British companies came in. The British companies would come, but it has been found difficult to secure, at least up to the present, the co-operation of the American companies.

Q.—Has there been any different policy in the Imperial Life in that regard at any time since it was incorporated? A.—Different policy from what?

Q.—From what you have outlined, giving a rebate if you must give, and as little as you can? A.—That has been our condition right along.

Q.—There is rebate legislation in many of the States of the United States? A.—I believe so.

Q.—Do you know whether it has the effect there of stopping the system of rebating? A.—I can only speak from hearsay; I think it has had a good effect in some States; in the State of Michigan it has had a good effect; I can only speak from hearsay.

Q.—Who would you penalize for the offence, the agent, or the company, or the assured, or the secretary? A.—The secretary would be an agent, would he not? I would penalize all three; I would penalize the agent, the company and the assured.

Q.—And do you think it could be stopped in any other way than that? A.—Not unless all the companies cooperated together, and I do not think there is much likelihood of securing the immediate concurrence of the companies for all time to come to stop rebating.

Q.—That I suppose has been touched on by the Managers' Association sometimes? A.—Yes.

Q.—You were speaking about the first year's expenses, and the length of time it takes to make up that initial outlay, and you have given us an estimate of that (in exhibit 227 now filed). (Reads.) Do you think that is a proper assumption that the first year costs 100 per cent. of the ordinary life premium? A.—I am inclined to think it is a rather low estimate.

Q.—That is you think it would cost over 100 per cent.? A.—I am inclined to think so.

Q.—On that basis you estimate in your return that it would take three years to make good? A.—Yes.

Q.—And as you have said that is partly due to the high rate of interest your company earns, and then you have had a very low mortality rate? A.—Yes, and to the careful selection of lives.

Q.—Or has it been good fortune? A.—No, I think it is due to the careful selection of lives. Our business is not a very large business, it may be we have been fortunate in not suffering the maximum mortality.

Q.—There is a gain on mortality, and what has the gain been in your company? A.—Our mortality has been about 52 per cent. of the Hm select.

Q.—That is a very low rate? A.—Yes.

Q.—Apparently all the Canadian companies have a saving on mortality? A.—Yes.

Q.—Is that due to the fact that they are Canadian companies and doing business in Canada, or is it due to the fact that they are taking on a great many new selected lives? A.—I think it is due to both.

Q.—Do you think that the companies here are right in treating that as a permanent saving they will have, or is that merely a temporary saving that in time will cease to exist for them? A.—I think it is only a temporary saving.

39th day, June 11th, 1906.

Imperial Life (Mr. Bradshaw Ex'd).

Q.—Are the companies not depending on a saving that in time they will not be able to treat as an asset at all? A.—I think that a company should make provision for the time when its deferred mortality—I think that is the way to put it, it is really deferred mortality—

Q.—That is deferred mortality that must come in to the company in time? A.—In time.

Q.—And that a company should make provision for that? A.—I think so.

Q.—That is it is kept in proper condition so long as new lives are coming in fast enough? A.—Yes.

Q.—And probably when that stops and the new business is not taken on so rapidly they will have a change in that mortality? A.—The curve will run up.

Q.—Part of that loss on the first year business I suppose is got back to the company by lapses and surrender? A.—I do not think that the anticipated loadings in respect of the new business is made good out of lapses. I think some of it is made good out of surrenders, but most of it out of the loadings, after the initial period of the policy

Q.—But under section H you have in this profit and loss statement reserves released by surrender and lapse $42,582, less surrender values allowed $24,107, leaving a gain there of $18,475; would not that item be due to some extent to the early lapse of the policy, and should be credited to your first year expense? A.—There are different views in regard to that, and some companies I realize treat it in that way.

Q.—Do you think that is a proper way to treat it, what is your opinion about it? A.—I think it might be fairly utilized for the high cost of new business.

Q.—What other view is there of it? A.—About the application of it?

Q.—Yes? A.—I am speaking now about the application.

Q.—You think that might fairly be treated as a deduction of that item of $139,609? A.—Yes.

Q.—That item of cost of new business I see takes up about 60 per cent. of the entire earnings of the company for the year? A.—What earnings do you refer to?

Q.—60 per cent. of the entire earnings of the year, of the entire preium income—there is $228,203 as total of the profit column? A.—Yes.

Q.—And then you take $139,609 as the cost of the new business, that is about 60 per cent.? A.—Yes.

Q.—Of the entire profits of the business; then this amount has to be deducted I suppose from the year's earnings and would reduce the amount divisible amongst policyholders as profits if you were making a yearly division? A.—Yes.

Q.—You would have to take that much from the profits of the old policyholders to be used in the new business? A.—Yes.

Q.—Do you think that is good insurance business, is that fair to the old policyholders? A.—It depends a good deal upon your system of division of profits. Under our system we assume no policy will earn surplus until it has been in force three years, and therefore provision is made for that. Some companies I understand have a reserve fund to take care of that; we have not.

Q.—You do not regard that a policy earns any profits until—A.—Until it has been three years in existence.

Q.—And then it commences to accumulate profits? A.—On the payment of the fourth year premium.

Q.—You do not divide your profits each year? A.—We allocate them, but we do not pay them out each year.

Q.—You adopt the five year basis? A.—Yes.

Q.—Now the renewal expenses amount to how much? A.—$70,068.

Q.—That is $45,209 is saved on the loading and renewal premiums paid, the difference between $70,000 and $115,000? A.—Yes.

Q.—Then the loading on renewal premiums and the loading on the first premiums would make $147,024 would it not? A.—Yes.

Q.—And the expense of the first year business added to the expense of the renewal business would amount to $252,043? A.—Yes.

Q.—So that your total expense for the year would be more than $100,000 in excess of your total loadings? A.—Yes, we have anticipated several years' loadings.

Q.—Does that mean that you are a young company, that makes that necessary? A.—No, I think that is incident to all companies.

Q.—That the expenses for the year should be bigger than the loadings for the year? A.—I don't say it should be.

39th day, June 11th, 1906. Imperial Life (Mr. Bradshaw Ex'd).

Q.—But I mean to say that is incident to all companies? A.—I would not say to all companies either. I must correct myself there. It is incident to quite a number of companies. It is especially incident to a new company because they have not got the large volume of old business on their books and consequently the loadings are not sufficient to take care of the expenses.

Q.—Then does that prove or not that the loading has not been sufficiently high to take care of expenses? A.—No, I think the loadings have been ample.

Q.—You think the loadings are ample to ultimately take care of the business? A.—Yes, I think that a company when it gets into a normal condition.

Q.—How are you going to ascertain that, is there any criterion that enables you to ascertain whether that is so or not? A.—Yes.

Q.—That the loadings are sufficient to ultimately take care of expenses? You will find a loss of $100,000 this year, will that continue? A.—That will decrease each year until it is finally wiped out.

Q.—How do you ascertain whether that will be wiped out and that your loadings are really sufficient to pay for expenses? A.—By a comparison of something similar to that year by year.

Q.—In the absence of something of the kind can you tell where to draw the line on your initial expenses? A.—No, it is pretty hard to do that.

Q.—Can you do it in the carrying on of your business, can you tell where you must draw the line on the first year expenses? A.—There is no limitation to first year expenses. I think that it would be desirable to bring about a limitation of first year expenses.

Q.—By statute? A.—I am not so sure about that but I do not know that it could be brought about in any other way, I am not just sure about that.

Q.—Why do you think it is desirable to limit first year expenses? A.—Because I think that is where all the life companies at the present time are meeting with their losses. That is to say that the new business of the life insurance companies is costing them all, I think, too much, and if there were a limitation placed on the cost of business it would have the effect of decreasing the cost and consequently of enabling the companies to keep within the proper margin allowed for expenses.

Q.—That is, you think, the companies in the race for business will not keep within the margin unless required to do so by some statutory provision? A.—I am inclined to think that there is a likelihood for this high rate of expense to continue unless there is some statutory provision or something else. I do not know what else to suggest.

Q.—In order to have some legislation in the way of restriction of first year expenses you must have some standard on which to base legislation, must you not? A.—Yes.

Q.—What standard do you suggest could be used? A.—That is a pretty big question. There has been a standard suggested.

Q.—What is that, are you referring now to the Select and Ultimate? A.—Yes.

Q.—What have you to say on that as a standard? A.—I am inclined to think it is a very ingenious system but I do not know that the function that is worked on there is the right function that should be worked upon in connection with expenses. The function that is worked upon is the mortality function.. There does not appear to me to be very good reason why gains in mortality should be anticipated and employed to off-set the heavy expenses of new business. The only claim, I think that has been made in support of that system is that the savings in mortality in the early years have been caused by good management and that this saving should be off-set against the expenses incurred in introducing the business. I think that that view is hardly sufficient because the expense caused by the selection is only an inconsiderable portion of the total first year's expense, whereas the allowance made is intended to provide for a very substantial portion of the expenses. It is claimed, as we have already discussed this afternoon, that forfeitures should be used as an off-set against the expense of replacing the withdrawing life by a new life. It seems to me that there would be almost as much logic in giving effect to that element as there would be in giving effect to the mortality. The loading in any year after the first is always more than sufficient to provide for the expense of the policy of the succeeding year, and in order to gauge the extent to which the expenses of the first year's business may exceed the load-

39th day, June 11th, 1906.

(Imperial Life, T. Bradshaw, Ex'd.)

ings on the first year's premium, I think that that element should be worked upon rather than the mortality element, that element which is specifically added to the net premium for expenses. I do not say that this is a model proposed, but it seems to me that the function that should be worked upon in connection with this first year limitation of expenses is the loading factor and not the mortality factor.

Q.—That is to say the first thing to look for is some standard or criterion on which to base legislation? A.—Yes.

Q.—Or base even a rule of conduct for the company in its own management. A.—Yes.

Q.—And so long as you get a rule that brings about the result, I suppose the reason for establishing that rule is not so very material. A.—It is desirable that the rule should be based on a good logical reason.

Q.—And you say that the reason given for adopting the Select and Ultimate is that the saving in mortality in that direction is the result of he expense that is to some extent incurred in having the lives properly selected? A.—Yes.

Q.—And that that affords a reason for using that saving in the mortality, towards the first year expenses? A.—Yes.

Q.—But your criticism of that is, as I understand it, that the portion of expense that is used to get that selection of lives is a very, very small part of the expense of the first year? A.—Yes.

Q.—And the item you are using on one side and the item on the other are out of proportion? A.—Yes, that is correct.

Q.—Then you say that the expense that you are referring to that should be considered when you are dealing with this subject of Select and Ultimate is the expense of the medical examination? A.—Yes.

Q.—But is not the expense of getting the new lives something that is to be considered as well as just the medical examination? A.—I think that the main element to be considered is the selection, the expense connected with the selection of the risk from the medical standpoint.

Q.—Then you limit it to the medical standpoint? A.—The agents are supposed to seek good risks, but it is not upon the agent's report that a policy is issued. It is after the risk has been selected by the local examiner and further selected by the medical referee at the head office.

Q.—Do you mean that if the taking on of new lives was dealt with by the agent only you would not have the saving in mortality? A.—No, it is altogether likely you would have a loss in mortality.

Q.—You think it would be the other way if it was left to the agent? A.—Yes.

Q.—And the only item of expense you can attribute to this better mortality is the work that the doctor does? A.—I think so.

Q.—And you will not, as far as that is concerned, add to that the work of the agent? A.—I do not think the agent selects the risks for the life insurance company, speaking generally.

Q.—It is, after all, a result of combined action, the agent and the doctor working together? A.—Well, the agent is not qualified.

Q.—He is qualified to get the man? A.—He is qualified to get the applicant.

Q.—He gets the person, who may or may not be selected, and then the doctor simply says he is or is not selected. A.—Yes.

Q.—Would you not combine the expense of both? A.—I think that the expense in connection with selection is limited to that in regard to doctors and head office selection.

Q.—Then there might be four items, I suppose; there would be agent's first year commission, and then other compensation to agents for new business and advances to agents, and medical examinations and inspections, and you would treat the medical examinations and expenses only as being applicable to that? A.—Yes.

MR. KENT: Why would you not increase the first year's premium? A.—What for?

A.—To pay the sooner this loading for the first year's expenses? A.—Well, the future premiums, the loading added to the future years' premiums is supposed to cover the excessive cost of the first year's premium, and it does that.

Q.—That is not so clear, Several witnesses have expressed a doubt as to that. Some witnesses have said it takes the loadings 7, 8, 9, and 10 years to overtake the initial expense? A.—Yes.

Q.—Anyway, what is to hinder the Imperial Life from adding 50 per cent. to the first premium? A.—Because the competition would prevent us from

doing so, and it would not be fair to the applicant.

Q.—At the beginning of your examination you said you could not agree that it was competition that fixed the rates, and not the actuary? A.—I said the actuary fixed the rate more than competition.

Q.—"Are not premiums fixed by competition more than by actuaries today? A.—No, I would not say that." Now, I would like you to say something; if you would not say that, what would you say? A.—I say the premium rates are fixed more by the actuaries than by competition. First of all there must be a suitable table of mortality, determined by the actuary; there must be a safe rate of interest, and there must be a fair estimate of the probable expense. It is the fairness of these three elements that go to make up the net premium and it is upon the judgment of the actuary as to what table of mortality, what rate of interest, and what loading shall be employed.

Q.—But back of all that, there is a question of competition that in my opinion at least, fixes the rate? A.—For example, if a fraternal insurance corporation determined that $10 was a proper rate for a premium and we determined from our tables that $30 was the proper premium, that competition would not affect us. We have today in Canada a large number of associations charging rates very much below what are proper and sound rates; notwithstanding that, we do not endeavor to compete with those rates.

MR. TILLEY: I suppose it is like the merchant with his goods; to some extent he is governed both by the cost of the article and what his competitor is selling it for, and even if his competitor sometimes gets below cost—

JUDGE MACTAVISH: And the quality of the goods.

MR. TILLEY: I suppose the quality will be about the same, perhaps, here. The actuary figures out the cost of the insurance? A.—The net cost.

Q.—And then competition to some extent, probably, modifies the premium that would be charged, and both these factors must enter into the decision. A.—The rate is never more than the net cost.

MR. KENT: If the Imperial Life was alone in Canada don't you think your premium rates would be higher? However, you have admitted that competition has something to say.

MR. TILLEY: No doubt it affects it a good deal. Then, in your opinion, does the favorable rate of mortality in the first few policy years warrant a lower reserve being held by the company? A.—No, on the contrary, I am of the opinion that it indicates that a company should hold a higher reserve and this view is borne out by the opinions of eminent British actuaries. We have also ourselves regarded that as being proper.

Q.—If the mortality rate is lower, why should the reserve that is held for the policies be higher? Why should it not just be commensurate with the death loss? A.—For the simple reason that the mortality we do not suffer this year is bound to come upon us some year; it is merely deferred and the company should make provision for that deferred mortality.

Q.—Why should they do it in a year when they have many other things to look after? A.—Our companies, as a rule, do not do it in Canada. Some of the best British offices do it. It is simply, I think, because here they are not very well able to do it, financially.

Q.—Do you say then that British companies, some of them, put up a higher reserve in the first years of the policy, than the ordinary reserve? A.—Yes. Take for example, the Australian Mutual Provident, which has been often referred to in evidence here and which is a magnificent example of life insurance company. I remember reading, a short time ago, that it had placed £70,000, $350,000 to the credit of deferred mortality, and for the express purpose of taking care of the mortality in the years when it would be greater than it was in the earlier years.

Q.—That is a very good thing for a company that is financially strong to do. A.—It is sound actuarially also.

Q.—Is it a proper thing to enforce upon a young company that is not so well able and is not likely to sustain a death loss. A.—No, I would not say it was a good thing to force it upon any company.

Q.—You think it would be a prudent thing for a company to do but it should not be exacted. Would you think it wise to make any exception from the rule as to reserve in the

39th day, June 11th, 1906. (Imperial Life, T. Bradshaw, Ex'd.)

case of young companies. A.—Not exactly in a reserve but I think that there might be some modification in the liabilities of a newly established life office.

Q.—You have not got so far relieved from the younger days of a company yet that you have lost sympathy? A.—No, I sympathize very much indeed with all young life companies. My first experience was with a new life office and my second experience with a new life office, so I know a good deal about their troubles.

Q.—What would you suggest would be good treatment for a young company in that regard? A.—Let us look at the Select and Ultimate System of valuation that my friend Mr. Dawson has suggested—and I must admit that it is an exceedingly ingenious method and that he deserves, I think, very great credit for suggesting it. The Select and Ultimate system of valuation contemplates a decreasing of the usual net premium reserves maintained for the security of policyholders. I have a great admiration for a company that maintains the net premium system of valuation and I have very little sympathy with a departure from that universally recognized sound principle. The main element, it appears to me, in life insurance, is security; and it appears to me that it would be a very serious matter indeed if the present security to policyholders were lessened. The history of life insurance in Great Britain, where the methods of conducting business are recognized as having attained a high degree of excellency, reveal that after evolution through many stages of valuation methods the net premium valuation has become the almost universal standard. It is not perfection by any means. Out of 79 life offices, no less than 67 maintain reserves on a net premium valuation basis or on a basis even more stringent. In the United States the net premium valuation method has been, until recent years, the standard for practically all of the States. In Australia it is the common method, and in Canada it has been the legal standard since 1876, the date of the Insurance Act. In Great Britain and Australia—and this, I think, is a very important statement—the companies have been free to adopt such standard of valuation as their actuarial officers have deemed proper. and it is quite significant that without compulsion and guided only by what they believed to be sound and best in the interests of policyholders, they have adopted as before stated, the net premium system of valuation. Nevertheless I believe that it would be proper to permit a company, should it so desire, to take credit for the additional year's loading beyond the first which might be embraced in the limitation of expense for new business. That is determine the net premium reserve and show it in the Government returns, but carry out as a net liability the difference between the net premium reserves and the present value of the anticipated loadings. But I do not think that the net premium valuation should disappear from the Government statement. Set that up as an ideal for a company to attain to. Let it be shown but allow the young company to take credit for these anticipated loadings, which it has been found necessary for the company to do in order to secure new business. This would, no doubt, prove of service to some companies, but I presume it would not be taken advantage of by the well established and prosperous companies. Should it be taken advantage of the result brought about would be somewhat similar to that obtained by the employment of the Select and Ultimate Method of valuation which Mr. Dawson has inaugurated, but I think without its defective features. First the limitation of the expense of new business would be measured by treating with an element, namely the loading, the specific purpose of which is to provide a fund for the expense of the policy, instead of with the element of mortality which, it seems to me, is very slightly connected with the expense. And secondly, it would maintain the integrity of the net premium system of valuation, which I consider one of the bulwarks of life insurance. The deduction from the net premium reserve of an item representing an amount invested by the company in the procurement of new business, thus enabling the public, from the Government returns, to determine exactly the amount of the anticipated loadings, would, I think, give the public a very excellent method, and also would be a test of solvency.

(At 4.30 p.m. Monday, 11th June, adjourned to 10.30 a.m. on Tuesday, 12th June, 1906.)

FORTIETH DAY.

MORNING SESSION.

Toronto Tuesday, June 12, 1906.

——Examination of Mr. Bradshaw continued:—

MR. TILLEY: Q.—You were speaking yesterday of a method other than the select and ultimate method which had been mentioned, and your idea was that whatever method is adopted should be on the loading rather than on the saving in mortality? A.—It seemed to me that was the proper function to work on.

Q.—You spoke of anticipating loadings, did you not? A.—Yes.

Q.—Would that be anticipating all the loadings on the policy? A.—No.

Q.—Or a certain number of loadings? A.—No, only what might be termed the initial loadings.

Q.—For how many years would you say would be the initial loadings? A.—It is merely a suggestion which I make, it is not a system which I am advocating, it is simply a suggestion. I would think that in respect of policies where the premiums are payable over the whole term of life, or where premiums are payable for 20 years or more, that one-fifth of the loadings might be anticipated, that is to say the whole of the first year's loadings, and the three subsequent years' loadings, less 7½ per cent. of the gross premium in order to take care of the renewal expense; on premiums less than 20, but as many as 15, one-fifth, that would be three; on premiums less than 15 up to 10, two, that would be one-fifth; it would be a rule of fifths, the total number of loadings assumed never to exceed twenty.

Q.—On any plan of insurance? A.—Yes.

Q.—Have you any statement there that would show that on the different plans of insurance? A.—Yes, I did work out a scheme to see how it would come out, and that is the scheme.

Q.—Proposed limit of cost of new business? A.—Yes.

Q.—Is this a system that has been adopted any place that you know of? A.—Not to my knowledge.

Q.—Is it a plan that has been proposed by actuaries? A.—Not to my knowledge; it is one that has been evolved by myself in view of the discussion on the limitation of cost on new business.

Q.—It is something that so far as you know has not been tested? A.—No, and it is only offered as a sug-

gestion; I might change my views about it.

Q.—This then is a limit that you think might be placed on the obtaining of new business? A.—I think so.

Q.—What rule would you establish, having taken these loadings and the percentage, what is your rule then about expense that you would propose? A.—With regard to first-year expense it seems to me that it might be proper to limit the expense to the anticipated loadings referred to, and the total expense of the company to the total loadings plus the anticipated loadings on the new business—that is the loadings on the old business plus the anticipated loadings on the new business; there would be, therefore, a limitation in regard to first-year cost, and a limitation in regard to total cost.

Q.—Has that anything to do with the reserve, when putting up reserve? A.—It could be worked in so as to give relief to those companies that might desire to take advantage of relief in the putting up of the statutory net premium reserve.

Q.—You think the net premium reserve should be the statutory reserve, but as you said yesterday there might be a dispensation from that in the case of companies who would——— A.—I would hardly say a dispensation, but I would say the net premium reserve should always be calculated and brought into the Government statement, but in carrying out the net liability the anticipated loadings on new business might be taken credit for, and the net result carried out as a net liability.

Q.—There again you would refer merely to the anticipated initial loadings? A.—Yes.

Q.—On this percentage of about one-fifth, as you say? A.—Yes.

Q.—Not exceeding in any plan of insurance twenty? A.—Yes.

Q.—Having computed the reserve according to the net premium basis that is now in use you think that the company might be allowed to take credit in its statement for these anticipated loadings? A.—Yes, to give relief to those companies as desired to take advantage of it.

Q.—Would you put it this way, that any company that is willing to show that in its statement that it should be allowed to do so? A.—Yes.

Q.—Or would you limit that in your view to companies of a certain age, or companies that have carried on business for a certain length of time?

40th day, June 12, 1906.

(Imperial Life, Mr. Bradshaw, Ex'd.)

A.—I would not like to speak definitely on that point at the present time, but I think the way it would work out would be this, that the strong established companies would not take advantage of that.

Q.—I quite appreciate that from what you said yesterday that would be your view, that the stronger companies would not do that, they would prefer showing the net reserve, but you would permit the stronger companies to do it if they so desired? A.—I have not come to a conclusion on that point yet, I am almost inclined to think that I would permit any company to take advantage of it.

Q.—Provided possibly if you had the limitation on the expense of business that you have spoken of, working along you would permit any company to do that? A.—Yes, I think so.

Q.—The minute you establish one reserve as a Government reserve and permit a company to show something less than that, is not that to some extent a reflection on the solidity of that particular company, are not you rather reflecting on its solvency? A.—The proposal I make is that the net reserve will always be shown.

Q.—And then the reserve that the company is carrying is shown by its return to be something less than that net reserve? A.—Yes.

Q.—Does not that of itself reflect to some extent on the solvency or stability of that particular company that has to make the deduction? A.—I would not say, it is simply an indication that that company has paid a certain amount for new business, and that it has borrowed, as it were, the loadings in order that it might put that business on its books.

Q.—Let me ask you the question this way; the reserve required by the Government, should it, or should it not be limited merely to what is necessary to show solvency? A.—I think it should.

Q.—That is the Government should not require from a company a greater reserve than is essential to establish that it is perfectly solvent? A.—Yes.

Q.—Because doing more than that it would probably prevent some company carrying on its business? A.—Yes, it would be unfair to the company.

Q.—If that is the standard from which you consider it, then is not the reserve that you carry out in the statement what persons would assume to be the thing that is essential for solvency, would not that be the fair inference? A.—It might be.

Q.—Then if you show on the face of the return of that particular company a deduction from that, no matter how reasonable the deduction is, no matter how proper it is, does not it at once reflect on the solvency of that company? A.—Just the same way as it would in the case of any other system of valuation; for example, in Great Britain there are two systems of valuation, one is known as the net premium system, and the other as the gross premium system, or a modified form of the gross premium system.

Q.—We have not heard anything yet, I think, about the gross premium system, if you would tell us what it is then we will understand you better? A.—The net premium of valuation involves only the net premiums, that is to say the company merely take credit in determining its reserves for the net premiums payable in respect of the policies valued in the future. Under a gross premium valuation the company takes credit for the office premium or gross premiums or a percentage of sub-gross premiums always being more than the net premium, with the result that the gross premium valuation is less than the net premium valuation.

Q.—Is it this way, that in taking the net premium valuation you disregard the loading on the premium entirely? A.—Yes.

Q.—And the company is dealt with in fixing its reserve, eliminating that question of loading? A.—Yes.

Q.—And not giving the company any credit for the loading it is going to reserve on the net premium? A.—Yes.

Q.—And in a gross premium valuation I understand you to say it is the entire premium, and the Government in estimating what benefit the company is going to receive in the future takes into account the gross premium, which includes the loading? A.—Takes into account the gross loading, or a percentage of the gross loading.

Q.—What do you mean by that, percentage of gross loading? A.—In addition to taking credit for the present value of the net premium the company takes credit for the present value of the loadings.

Q.—So that the company gets a deduction from the reserve it would have put up on the net premium basis for the present value of all the loadings it is going to receive on that policy? A.—Yes, or a percentage of the loading.

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

Q.—That gross premium valuation reserve basis has been tried in England? A.—Yes.

Q.—And is it still in use? A.—Yes, by some companies, but not by many.

Q.—Has it been regarded as proper or successful? A.—The history of that is this, away back thirty or forty years ago a great many of the British companies that were not strong resorted to that method of valuation. As the years have gone by every company as it became stronger financially disregarded that system until now I think in looking up the question a few days ago I found that there were only five companies that included in its valuation any part of the loading; whereas 67, I think, was the number of the British companies made what is known as a net premium valuation, discarding the loading in the valuation.

Q.—Let me ask you this question, is not the gross premium basis the exaggerated form of the preliminary term plan? A.—They are somewhat——

Q.—Is not the preliminary term just a milder or modified form? A.—It has no connection with the preliminary term that I can see.

Q.—Will you explain preliminary term? A.—I have not had very much occasion to look into it, but as I understand it it is simply this, that a man insures at the age of thirty, say on the life system, the value of that contract at the end of the first year is assumed, I believe, to be nil; the second year that contract is valued as a contract entered on as age 31, one year in force; in other words no recognition is taken of the first year's insurance, that is supposed to be term insurance, and no reserve required in respect thereof. In the gross premium system of valuation you will notice that the policy is valued from its initiation.

Q.—Does not the preliminary term plan rather resemble the plan you outlined yesterday? A.—Not in the slightest degree, there is no connection whatever, no similarity so far as I can see.

Q.—You were going to give us some explanation? A.—I would like to give you the rationale of this system which has been suggested by me, and probably it may open up the question a little bit more. The premium charged the policyholder is a level annual premium payable during the premium paying term of the policy, because the premium is level, the two portions into which a premium may be said to be divided, namely that portion which measures the cost and is called the net premium, and that portion which is added for expenses and is called the loading, are each also level throughout; theoretically, therefore, in order to accord with the manner in which the expenses are provided for by the premium that expense coming under the head "Commission to agents," etc., should also be at a level annual rate; in other words the same amount of commission should be paid in respect to each premium received instead of a high first year commission and a low renewal commission as in practice; at one time the payment of a renewal annual commission rate did obtain in Great Britain but was forced out I believe by the American offices chiefly, operating in Great Britain and allowing agents to commute part of the renewal commission and receive it on payment of the first year premium, and from this development the practice of paying a high first year's commission and a low renewal commission obtained. Therefore, the high first year commission is really in Great Britain—and this is I think the crux of the whole matter—the high first year commission is really in great part a commutation of a portion of the future renewal commissions, the proper function to use in dealing with it must necessarily be that function, the loading, the particular purpose for which is to provide for commission, and the proper way of treating with that function would seem to me to be to commute a portion of the future loadings in a way analagous to that in which the future commissions have been commuted by the companies in payment of the business. That is where I start from.

Q.—You say that is the reason why you think the loading is the proper basis on which to work? A.—It seems to me that that is the proper basis.

Q.—That is the factor that is added to the net premium to cover these expenses? A.—Yes, and that is what is involved.

Q.—Is not the idea of preliminary term after all that you anticipate part of the loading A.—I have never looked into preliminary term as I have stated, and I have not considered it from that standpoint.

Q.—The effect of the preliminary term plan is to increase the net premium after the first year? A.—In the valuation?

Q.—Yes. A.—Yes.

40th day, June 12, 1906.

(Imperial Life, Mr. Bradshaw, Ex'd.)

Q.—And that reduces the loading after the first year? A.—Yes, that would that.

Q.—So that that means in the result that it is an anticipation of the loading? A.—You can work it out that way.

Q.—That is your plan as well? A.—Yes, but this suggestion applies from the inception of the contract and does not anticipate a whole year's premium for expenses as the preliminary term system does; the preliminary term system, as I understand, permits a company to spend the whole of the first year's premium in expenses, and that I do not think is right.

Q.—Why do you not think that is right? A.—Because it is too large a proportion of the first year's premium to spend.

Q.—It may be that it is a spending of the first year's premium, but after all it reduces down to an anticipation of future loadings? A.—It can be viewed in that way, you can view a proposition of this kind in many ways.

Q.—You have handed me this statement, which will be exhibit 228, showing what loading you would anticipate? A.—The present value of the anticipated loadings.

Q.—And the life plan you have shown here there would be 86.9 percentage allowed? A.—At age 25.

Q.—Of the gross premium? A.—Yes, and at age 55, 57 per cent.

Q.—Compare that with Exhibit number 72, which was put in in Mr. Papps' examination, and here we have age 25, life policy, the percentage of premium allowed is 87 per cent? A.—Very much the same.

Q.—At age 35 under your exhibit 75.8, and in the select and ultimate plan 80 per cent? A.—Yes.

Q.—Age 45, yours would be 66 per cent? A.—Of the first year's premium?

Q.—Yes, and under the select and ultimate 79 per cent? A.—Yes.

Q.—There seems to be a difference there? A.—Yes.

Q.—So that the result of these plans seems to be about the same? A.—They run pretty closely the same, I think.

Q.—Is there anything connected with the plan that you have outlined that would bring a different result from the select and ultimate, or can we start with that assumption that the plan that you have outlined would give us practically the same as the select and ultimate plan? A.—I cannot tell how that would work out in any particular company or any particular volume of business.

Q.—What I wanted to find out was, is it just a matter of the reasoning that would apply to get the result, and the result the same, or is there anything fundamental in it that makes one a proper method and the other an improper? A.—I would not apply the term improper method to anything Mr. Dawson suggests, I think too highly of Mr. Dawson's work and himself for that. I approached the subject with an open mind and endeavored to solve the question which Mr. Dawson was endeavoring to solve, and in doing so I endeavored to fix upon an element that I thought was a proper element to be considered, and it occurred to me that the only element that could very well be considered in the determination of the limit of cost of new business, of total business, was the loading on the premiums, and that the mortality function had very little indeed to do with expense; I rather worked it out in a logical manner.

Q.—You noticed, did you, that your plan gives a little lower percentage than the select and ultimate? A.—I did.

Q.—So that the select and ultimate could not be described as severe? A.—No, I think that great credit is due to the originator of the select and ultimate system for having originated it.

Q.—Does the select and ultimate method make allowance for this suspended mortality that you spoke of yesterday? A.—Not in the early years.

Q.—What you said yesterday was that while there is a saving in the mortality with Canadian companies that that is due to the selection and the bringing in of new lives? A.—Yes.

Q.—And that ultimately the company must reap its mortality? A.—Yes

Q.—And in that way the mortality is suspended? A.—Yes.

Q.—The select and ultimate, as I understand it, makes allowance for that selection and bringing in of new lives in the earlier years? A.—Yes.

Q.—Does it also make allowance for the full mortality coming in? A.—It provides for the ultimate mortality after the period of selection has worn off.

Q.—That is, there is nothing in your evidence yesterday. I do not know that I understood it that way, but you did not intend to say that the select and ultimate plan does not take

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

care of the full mortality? A.—No, it anticipates the low mortality.

Q.—Is it true that some companies have issued non-participating policies at practically the net premium rate? A.—I would think that there would be a loading of from 10 to 15 per cent. on non-profit policies.

Q.—Are you speaking now of companies here? A.—Yes.

Q.—Companies in Canada? A.—Yes.

Q.—Has the Northwest Mutual not issued non-participating policies at the net premium rate? A.—I am not acquainted with that, I don't know.

Q.—You don't know whether that is so? A.—No.

Q.—That is a large and prosperous company? A.—Yes, a very prosperous company.

Q.—Do you know whether the Mutual Benefit has not in the past and until very recently issued policies at practically the net premium rate? A.—I would be surprised to learn if it had at the net premium, I think that in every instance it would have a margin for expense.

Q.—Non-participating insurance at the net 3 per cent. American rates? A.—I don't know that.

Q.—That I suppose might be possible for a large and prosperous company to do, and not lose money on it? A.—It might be done in this way, the Mutual Benefit is known as being practically a mutual company, it issues very few non-participating policies, and it may have at some time in its experience issued a non-participating rate in order to compete with the rates of stock companies. I would think that the Mutual Benefit non-participating business would be an infinitesimal fraction of its total business, and that the non-participating rates would not be a fair sample of nonparticpating rates of American Life Compaaies.

Q.—Would the same statement apply to such a company as the Northwest Mutual? A.—It is a purely mutual company and the same statement would apply to that.

Q.—And the Prudential? A.—The Prudential is a stock company, and that statement would not apply to that company.

Q.—Do you know whether that company has not taken on non-participating business at practically the net premium rate? A.—I do not know that; I know now that it has not, I know that its loading at the present time is 15 per cent. of the net premium.

Q.—Those are rates that have just been put on? A.—I think last year, 15 per cent. of the net premium.

Q.—If a company can do that how can your plan operate on such a company? A.—As I have explained, no company does do that generally; they will do that simply to attract a certain amount of business that is going into some stock company, and a company would not do that in respect of its whole business for any length of time, it could not exist, because how does it pay its expense? It has to have the loading to do that.

Q.—The loading is not a regular addition to the premium amongst companies? A.—No, it is not.

Q.—It is a variable quantity? A.—Yes, but is fairly constant on account of the competition in rates, at least the competition with companies.

Q.—If a company had a very low loading on its policies how would your system apply to such a company? A.—Then such a company would pay a low percentage for its business, and would secure its business at lower cost than a company who pays a higher loading on its net premium.

Q.—It might if it had a very low loading be without funds for expenses at all? A,—The companies will look after that .

Q.—Is not that going to take the money out of policyholders in the companies looking after it? A.—No, I have thought over that question, competition will regulate that; we have British, Canadian and American companies here————

Q.—Your plan involves the estimation of proper expenditure or allowable expenditure by a certain percentage on the loading? A.—Yes, which is the proper function.

Q.—Which is the loading's proper function? A.—Yes.

Q.—If that is so, and the company wishes to spend the money it must add on a loading? A.—Yes.

Q.—And would not it be fair criticism by policyholders that the government by its regulations had rather forced the companies to do that, and could not the companies use that argument? A.—But the Government might fix the loading if it liked.

Q.—Would you suggest that? A.—No, I would not.

Q.—Would not the criticism that would then be offered be that the legislation by limiting the expenditures of the company, by comparison with

the loading be an excuse to the company to put up its loading? A.—It might be an excuse, but I think competition would regulate that; that is my answer.

Q.—Then it is competition that fixes the premium and not actuaries? A.—No, in the first place the net premium must always be fixed upon, that is the basis of all premium rates.

Q.—Now we have got something over the net premium, we have net premium plus loading? A.—Yes.

Q.—Are we not going to invite, and almost compel companies to put on larger premiums just in order to give them more money to spend in getting new business? A.—I do not think so, as I have stated I believe that competition would regulate that.

Q.—You would suggest that it be limited to the amount of the premium or the loading part of the premium, which is practically the same thing, you suggest that expenditure shall be limited in proportion to the premium and you would not restrict the amount of the premium; of course when I say premium I mean a portion of the premium, the loading, if you make it any proportion of the loading of the premium you to some extent make it depend on the whole premium? A.—Yes.

Q.—Your power to spend money depends on the size of the premium? A.—Yes.

Q.—Is not that flying in the face of danger? A.—That seems to me only logical.

Q.—The companies, you think, should not be restricted as to the amount of the premium they could ask? A.—I think competition will fix that as it has in the past. The experience of a generation has proven that, it is not my theory, but the experience of a generation has proven that competition has a good deal to do with the premiums charged by life companies. I do not say competition fixes the premium, but I say this, that after the net premium has been determined the amount added to the net premium for expenses is very largely fixed by competition.

Q.—It is said there are companies in the United States issuing non-participating policies which pay 80 per cent. to 90 per cent. brokerage? A.—I do not know any of them, I am not acquainted with the practice of the American companies. Our own non-participating commission is two-thirds that of the participating.

Q.—Under the plan that you have outlined and the select and ultimate plan, both, the ordinary reserve as we now understand it, the proper reserve would be attained in about four years or five years? A.—Under the select and ultimate I think in five years, and under the one that I have mentionel in four years, (in some instances three, in some two, some at the end of the first year.

Q.—On participating business they would both work out practically at the same time? A.—Well, there would be this distinction, that on whole life policies and policies for 20 years, calling for twenty or more payments the full net premium reserve would be attained at the end of the fourth year, on policies calling for 15 premiums at the end of three years, and on policies calling for ten premiums at the end of two years, on single payment and five payment life premiums at the end of the first year.

Q.—I think you stated you saw no objection to a company being required to show a high reserve, and then take some deduction off that to suit its own special case, and the company show a low reserve as required by the law, and then if it desires adding something to show that it has a better reserve—do you understand me? A.—No

Q.—This way; under your plan as we said before the company must show the net premium reserve? A.—Yes.

Q.—And if it chooses it can show that its position is not up to that mark? A.—Yes.

Q.—By showing a deduction? A.—Yes.

Q.—Under the select and ultimate plan the reserve required would be shown? A.—Yes.

Q.—And that would be the maximum reserve? A.—Yes.

Q.—And then if the company desires to show it was in a better position in regard to reserves than that it could do so? A.—Yes.

Q.—Is not that latter a fairer plan to the company, that it shows more than solvency according to the statement rather than what might be taken to be less than solvency, the Government requiring merely solvency, or supposed to require merely solvency? A.—It has been regarded in Great Britain and I may say the world over until recently, that the standard of solvency is the net premium system of valuation, and it seems to me that that is the ideal that every company should endeavor to attain to. It

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

should not have a low standard to conduct its business by, but it should have a fair standard; the net premium system of valuation is not the ideal standard, the ideal standard is a valuation by select table all the way through, but the net premium system is a mid-way between the ideal by the select table and what has been suggested either by Mr. Dawson or myself.

Q.—You think there is no objection to the plan that you have outlined as against the select and ultimate plan on account of that phase? A.—I would not think so, I think it would be a good thing, because there is an incentive there for the companies to reach something they should reach at the earliest possible time.

Q.—There is some incentive for one company to show it has a better reserve than the other, or a better reserve than required by law? A.—There will be in all financial statements and financial institutions, there is that going abroad—

Q.—If the net premium basis is used as being the proper standard up to which the company should measure it would permit practically using up all profits, would it not, or a great percentage of the profits that should go to the policyholders on getting new business? A.—In connection with that I would like to read just one note here which is thoroughly in accord with my own views, and which is the view of, I have not got the writer, but it is a rather distinguished writer "After all," he says, "true as it is that the greater part of the exependiture of a life office is undertaken for the purpose of extending its business, this is so vital a feature of its existence that its policyholders can hardly be exempt from providing for it within reasonable limits. They join the company as a going concern and share the advantages which presumably accrue to it from a steady annual accession of new entries. Their interests would undoubtedly be prejudiced if that annual accession were too dearly bought." He is very moderate there. "But a valuable safeguard against such a danger is provided for by the very principle of making reserves for old and new policies on a uniform basis." I do not know who that is. Its bearing upon old policyholders is a question that affects of course a new company more than any other class, and after a company gets on its feet and becomes established it is not, I do not think, a very important problem.

Q.—We have seen that the profits to policyholders have been very much interfered with in some companies by the getting of new business? A.—Yes; have you looked into the advantages that have accrued to the company by that new business?

Q.—What about the advantages that have not accrued to the policies that have become claims? A.—They get their share during their life time.

Q.—They do not get their share, those that live to that period, and do not live to reap the benefit of the larger and expanded business? A.—You cannot take one policyholder or one group of policyholders in a life company, you must take the whole.

Q.—Does not rapid extension of business over a certain period of time work rather hardly on the policyholders of that day? A.—Yes, rapid extension, it does, but I have no sympathy with the rapid extension of business.

Q.—Using this net premium basis, and a fairly rapid extension of business interferes very largely with those profits? A.—It would, if it is a very rapid extension.

Q.—Or even a moderately rapid extension, if the extension is in certain countries where the expense is high? A.—If there is a moderate accession of new business then it should not disturb the profits of policyholders.

Q.—That might apply where the accession of new business is in the home country of the company, but can that apply where a company is extending its business into other fields? A.—That would mean there is a very large accretion of new business.

Q.—It might or might not at first, the company must become established? A.—Yes.

Q.—As these Canadian companies are endeavoring to be established in foreign fields, that is the fact? A.—Yes.

Q.—Considering that fact that the Canadian Companies are now incurring these expenditures in order to establish in foreign fields may it not work very hardly on the policyholders? A.—Let us take actual experience, that is the best criterion; the British companies that have extended to this country have not been unduly affected in the past by that. Take the Australian Mutual Provident, which has secured the consent of its policyholders to extend its business

40th day, June 12, 1906.

(Imperial Life, Mr. Bradshaw, Ex'd.)

to Great Britain. The statement of the actuary, Mr. Richard Teece, is that it will not have any effect upon the bonuses of policyholders in that company.

Q.—Is that the general experience of companies? A.—It might not be the general experience, but well regulated offices and those who endeavor to establish their business in foreign countries upon a proper and legitimate basis, I think that has been and will be the experience, no business should be undertaken by any life insurance company that is going to seriously interfere with the existing members.

Q.—That may be a good rule to lay down, but it does not seem to have been observed by all companies? A.—Not by all, but by some, very excellent ones.

Q.—The standard laid down, whatever it be, should be reasonably definite and certain? A.—The standard of reserve, yes.

Q.—Do you get that unless you require the loading to be a certain percentage of the net premium ,in your plan—do you get that unless you stipulate that the loading shall be a certain percentage? A.—The amount which a company would take credit for in anticipative loadings would vary with the loadings of the company.

Q.—The standard would vary with the loadings of the particular company? A.—Yes, just in the same way as does the select and ultimate, the loading there is also taken into account and it is a variable quantity.

Q.—It just comes back to the same point then that the company has the opportunity to change and alter that just by changing and altering its premium? A.—The same as in the select and ultimate.

Q.—You seem to think that no standard of loading should be established? A.—No, I would not advise that.

Q.—Take the plan that you have outlined, would not that be subject to change from time to time by legislation, but especially if you in any way limited the loading to a percentage, these different percentages, the period which you would call the initial year, that would all be different items that might be subject to change from time to time at the instance of insurance companies? A.—I do not see it in that way.

Q.—The select and ultimate establishes, if it is proper, a basis which works out itself without different computations of loadings and percentages and so on? A.—No, the loading enters into the select and ultimate system, and therefore it is also an elastic system.

Q.—It just occurs to one that the plan you have outlined would involve agitation for fixing percentage of loading and changing percentages of loading, alteration in the number of years that you say would be the initial year, and all these matters would have to be taken into account? A.—I think they would form some discussion, but I think they are capable all of settlement when the matter is carefully gone into and considered; I think it is a suggestion upon which a system can be built up.

Q.—The select and ultimate has been approved by eminent actuaries, Mr. Bradshaw? A.—I think it has.

Q.—In the New York investigation actuaries were heard from there, were they not? A.—I have not read their views but I believe it has met with approval.

Q.—That is after the Report and before the Legislature where the actuaries were heard, do you remember that? A.—No, I do not, I have not followed the proceedings there.

Q.—I am told that Mr. McClintock, he is an eminent actuary? A.—Yes.

Q.—And Moir, Tatlock and Manly? A.—Yes, I can quote you just as eminent. George King, for instance, and I can quote you Mr. Chisholm and Mr. Chatham in regard to the net premium system of valuation.

Q.—You spoke of this as being a new plan adopted by Mr. Dawson. I just wanted to ascertain whether it had not met with approval by eminent actuaries? A.—Yes, and I have already stated I think, that in my opinion it is an exceedingly ingenious system and one which, I think, the insurance profession is very deeply indebted to Mr. Dawson for.

Q.—One uses the word ingenious sometimes when one thinks it is rather a taking scheme, but probably not very substantial? A.—I do not mean it in that sense. I mean clever.

MR. KENT: It is well known that doctors have different opinions, and even amongst lawyers there may be different opinions on a great many questions.

MR. TILLEY: How do you know whether non-participating businesses pay? A.—Well, we determine the rate of commission which we pay under that business, and that enables us to

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

determine whether the business is paying or not.

Q.—Whether you are charging a sufficient premium to the participating policyholders? A.—To the non-participating policyholders.

Q.—Can you tell whether that branch of the business pays? A.—No, we cannot tell. We have never made an investigation to determine that, but speaking generally.

Q.—What would you have to do to ascertain whether the non-participating branch of the business is paying? A.—Make out a gain and loss exhibit as has been made out for the whole of the business.

Q.—The same as we have made out here? A.—Yes.

Q.—Have you ever done that? A.—No, the non-participating business of the company is so small that we have never gone into the question of expense in connection with it.

Q.—Do you know whether the premiums charged on non-participating policies are sufficient to carry the risk and pay the death claims and leave any profit in it for the company? A.—I think it would in our case. I cannot speak of the non-profit policies of other companies.

Q.—From what you were saying to me when referring to the items in the Gain and Loss Exhibit, according to the plan adopted the non-participating part of the business receives its share of the interest earnings the same as the participating? A.—Yes.

Q.—And it gets in that way a profit? A.—Yes.

Q.—Although as a matter of fact that branch of the business might have been carried on at a loss in reality? A.—It might be.

Q.—Then how do you know whether the participating policyholders' money is not being used to carry on the non-participating policyholders' policies? A.—This is what we have done in our own case. We know what the loading is on our non-participating business and we have deemed—whether rightly or wrongly—that the loadings are sufficient for the expenses.

Q.—You don't know whether that is so? A.—I don't know whether that is the fact or not. I think it is a very fair assumption, though, in view of the way our premiums are loaded.

Q.—What class of business do you urge your agents to acquire? A.—Well, I cannot say that we urge them to secure any particular class.

Q.—Do you issue any instructions to your agents? A.—We have a manual of instructions, yes.

Q.—Would you let me see it? (Produced.) One of your rules came up recently and instructions were issued that the particular rule in the book of instructions to agents, should be enforced literally in the future. Do you remember what one that was? A.—No, I cannot.

Q.—Is there anything in this book as to the kind of policy that you urged the agents to press on the applicant? A.—So far as my knowledge extends we have never issued any document urging the agents to secure any particular class of business. We have issued pamphlets concerning different forms of policies, and we furnished those to you, but I do not think that they indicate that the company desires business upon those forms of policy in preference to any other form of policy.

Q.—Probably the rate of commission that you pay indicates the form of policy? A.—As I have stated, we pay to agents two-thirds of our regular participating rate on non-participating business.

Q.—That is to say the agent gets a 50 per cent. advance on the participating business over what he gets in the other? A.—He gets two-thirds of the participating rate for non-participating business.

Q.—That is a sufficient intimation to the agent, is it not, which one he should urge the applicant to apply for? A.—Not necessarily so.

Q.—Why do you make that difference, is there that difference in benefit to the company? A.—I noticed that that question had been raised in the previous examinations and therefore I made a note of it. The commission paid on non-participating policies in the Imperial Life is two-thirds of that paid under participating policies. The reason for this is that it has been found by actual experience that the mortality under non-participating assurances is greater than the mortality under participating assurances. Take, for example, the latest and most approved experience published, namely the British office experience of '93. The mortality experience was taken in respect of participating and non-participating insurance. It was found that between the ages of 25 and 65 the mortality in the first year in non-participating ranged from 134 to 159 per cent. of the mortality under participating assurance. The practical effect of this in-

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

creased mortality was to increase premium rates. Under a whole life assurance the premiums in non-participating ranged from 107 to 110 per cent. of the corresponding annual premium, on the basis of mortality, according to participating assurance. Instead of increasing the rate of premium to the policyholder, the rate of commission was lowered, hence the distinction between the rates of commission between participating and non-participating policies.

Q.—That is the reason you give for the extra commission to the agent on a participating policy? A.—Yes, or the lower commission on non-participating.

Q.—You have indicated in your returns how you make up the loading on your premiums? A.—Yes.

Q.—And from 1897 to 1899 you had certain percentages, had you not? A.—Yes.

Q.—And then a change was made in both the participating and non-participating? A.—Yes.

Q.—And then from 1899 to 1900 was another set of figures and from 1900 to date is the other? A.—There have been only two changes; the first is 1897—to '99; then from '99 to 1900; that is to the commencement of 1900, and then from the commencement of 1900 to the present time. There have been two changes, three rates.

Q.—Then on the life participating class you had the Hm. 4 per cent. plus 28 to 38 per cent? A.—Yes.

Q.—And in the non-participating Hm. 4 per cent. 11 to 25 per cent? A.—Yes.

Q.—In the 20 Payment, the Hm. table, 4 per cent. interest plus 25 per cent. And in the non-participating plus 10 per cent., is that right? A.—Yes.

Q.—In the 20 Year Endowment the same table and rate of interest and 20 per cent., and in the non-participating 12½ per cent? A.—Yes.

Q.—That would assume a dividend in cash each year of 13 to 17 per cent. of the net premium on the Life Plan, would it not? A.—Yes, that would practically assume that.

Q.—And 15 per cent. on the 20 Payment plan? A.—Yes.

Q.—And 7½ per cent. on the 20 Year Endowment? A.—Those are the differences in the percentages, yes.

Q.—Are those safe rates to assume? A.—Which, these loadings?

Q.—These rates of dividend in cash on the Life Plan and the 20 Payment plan, and the 20 Year Endowment plan? A.—I don't quite catch that.

Q.—You have given me participating rates and the non-participating rates? A.—Yes, the difference between the two rates, and whether the surplus to the credit of the policies equals those two?

Q.—Yes? A.—I see. It appeared to us to be so.

Q.—Did it work out so? A.—I have not tested that.

Q.—The difference in the 20 Payment Life seems to be very great. 25 per cent. on a participating and 70 per cent. on the non-participating? A.—Yes.

Q.—On the 20 Year Endowment it is very low, 20 per cent. on the participating and 12½ on the non-participating? A.—For those first rates I must disclaim any responsibility whatever. I did not make them up.

Q.—We generally reach that stage in each company where some rates were made up prior? A.—Well, if you look at the rates subsequent to those rates.

Q.—Let us take the next then from 1899 to 1900. We have got to your time? A.—Yes.

Q.—It is on Sprague's selected table? A.—Yes.

Q.—And the interest 4 per cent.? That same table and rate for both the participating and the non-participating? A.—Yes.

Q.—And on the Life Plan the participating, 33 1-3 per cent., non-participating 25 per cent.? A.—Yes.

Q.—20 Payment, 30 and 20 per cent. 20 Year Endowment, 27½ and 27 per cent.? A.—Yes.

Q.—That would assume an annual cash dividend on the Life of 8 1-3rd per cent. of the net premium; on a 20 payment, of 10 per cent.; and on a 20 Year Endowment of 11½ per cent? A.—Yes.

Q.—In practice is the percentage of dividend to premium any higher on the Life Plan than on a 20 Payment and 20 Year Endowment? A.—Are you speaking generally now?

Q.—Yes. A.—Yes, I judge that would be the case, but it depends, of course, altogether, upon the system of surplus distribution adopted by the company.

Q.—What do you mean by that? A.—Each company has its own system of allocating surplus and it would altogether depend upon the system that was in vogue. For example, some companies allocate their profits, or at least distribute their profits in

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

the way of a reversionary bonus and some according to the system which we have adopted, that is a percentage of the reserve and a percentage of the loading and giving due credit for the policy's share of forfeiture. I explained that the other day.

Q.—On that system you say that those are fair? A.—Under that system I think the policyholder receives his equitable share of the surplus, and that applies to all forms of policies. That is to say that it seems to me that in that system no one policyholder gets an advantage over another.

Q.—No policyholder of any class or plan? A.—Yes, of any class or plan.

Q.—Then in 1900 you made the other change down to the present time? A.—Yes, those are the uniform rates referred to.

Q.—Uniform rates referred to where? A.—Uniform rates of 20 per cent. plus $3. The uniform rate that several companies have referred to a few days ago.

Q.—That was the first time that you changed to a constant along with your percentage? A.—Yes.

Q.—Did you drop that afterwards? A.—No, that is still in use. That is on certain plans of insurance. On other plans the loading is 17½ per cent. plus $3.

Q.—Then taking the rates you have now in force; I am told that they assume an annual cash dividend on life policies, participating, of 19 per cent. on the net premium. 1901 to 1906 20 per cent. of the net premium. Can you verify that? A.—No, I cannot, not very well here. I presume that that would be right.

Q.—20 Payment, 1900 and 1901, 17 per cent. of the net premium. 1901 to 1906 21½ per cent. of the net premium. 20 Year Endowment 13 per cent., and 15 per cent. of the net premium. If that is so that would assume a much larger earning than in 1899 and 1900? A.—I have not had an opportunity of checking those figures or looking into the question and it is very hard for me to say.

Q.—In 1899 it was 8 1-3rd on Life, 10 on 20 Payment and 11½ on 20 Year Endowment. Now we have 19 per cent. in 1900-01 on Life; 17 per cent. on 20 Payment, and 13 per cent. on 20 Year Endowment. Those are much higher figures? A.—I have no means of checking those.

Q.—Do you not know generally that the figures are much higher in 1899 and 1900? A.—I have not investigated that Mr. Tilley. I would be very pleased to do so if you would allow me.

Q.—If you will, then we can refer to it shortly again. The percentage seems to be greater for the 20 Payment Life than for Life; 21½ per cent. for 20 Payment and 20 per cent. for the Life Plan? A.—The percentage will vary because there is a constant introduced. It will vary with each plan and each age on account of the constant having been introduced.

Q.—At any rate those were the rates that were fixed generally for the companies as you mentioned? A.—Yes, the actuaries met and agreed upon these loadings.

Q.—Then referring again to your Profit and Loss Statement, the net expected death loss in 1905 was $138,759. The actual death loss in that year $78,773. Do you consider that a favorable showing? A.—Yes, it is favorable.

Q.—Is it as favorable as in other years? A.—Yes, I think it is as favorable. I might say that our actual death loss during the entire history of the company has been only 52 per cent. of the H.M. Selected Mortality Table.

Q.—How does it compare with the death loss on the policies issued in 1905? A.—It is not as favorable in percentage only, but you must take other factors into consideration. You must take the duration of the policy, which has a very important bearing upon the mortality.

Q.—Your showing on mortality has been very favorable? A.—Very favorable.

Q.—Even for a young company, where the mortality rate is usually favorable? A.—Yes.

Q.—Then the gain upon annuities; net expected annuity claims maturing in 1905 $5,005. Less annual net annuity claims maturing in '05 $40,579. What does that mean? A.—That represents the reserve released less the payments to annuities.

Q.—Is there something special about that in this particular year, that would not be an ordinary condition? A.—Yes, I think that during 1905 either three or four annuitants died. A most unusual experience. We have not very many annuitants; probably about 20, and remarkable to say that during that year three or four of them died.

Q.—So that a large sum would be released in that way? A.—Yes.

Q.—Leaving a profit from that item of $45,584? A.—Yes.

40th day, June 12, 1906.

(Imperial Life, Mr. Bradshaw, Ex'd.)

Q.—That would not be a normal condition? A.—No, that is an extraordinary condition.

Q.—The profits on investments you have given us already, about 5.5 per cent., is it not? A.—Yes, 5.52. That is not the profit on investments, that is the interest earned on invested funds during the year 1905.

Q.—That is what I meant. That is a high rate of interest? A.—Yes.

Q.—About one per cent. higher than the ordinary companies? A.—No, I would not say the ordinary companies. It is about one per cent. higher than the average rate of interest earned by all Canadian life offices, but included in the number of companies, there are some companies that have earned a higher rate of interest and some, of course, a lower.

Q.—Can you account for your good rate of interest in the last 3 or 4 years? A.—Yes, I think it is due almost entirely to our investments in the Canadian North West.

Q.—They produce a good rate of interest? A.—Yes, between 6 and 7 per cent.

Q.—Don't you think it would be wise to limit insurance companies to that class of investment? A.—I think it would be very unwise.

Q.—Were you a party to the change in investments in 1900 or in 1899? A.—Yes, I was one of those—the Imperial Life was seeking at that time increased investment powers.

Q.—Who suggested that increase, what companies? A.—At a meeting of the representatives of the Canadian Life Offices' Association, on February 17th, 1899, at which meeting there were present Messrs. McDonald, of the Confederation Life; Mr. Hilliard, of the Dominion Life; Mr. McDougall, of the British Empire; Mr. B. Hal. Pine, of the London & Lancashire; Mr. Wegenast, of the Mutual Life; Mr. A. G. Ramsay, of the Canada Life; Mr. Kenny, then of the Excelsior Life; Mr. Burke, of the Royal Victoria Life; and Mr. Sutherland, of the Temperance and General Life; and myself. There was a resolution introduced which was preceded by this note, and which seems to have been the suggestion which seems to have led up to the seeking of wider powers. "The sense of the meeting was unanimous that a more rigid basis of valuation of policies should be adopted by the Government within a reasonable time." I mention that because the reserve rate of interest has an important bearing upon this subject. Then that was followed by this resolution: "It was moved by Mr. Wegenast and seconded by Mr. Hilliard and carried unanimously that the Association deems it desirable that enlarged powers for investment be secured by general legislation for all the companies doing business in Canada, and that the Committee on legislation take prompt action to urge the acceptance by the Insurance Department of the proposed Bill at the forthcoming meeting of Parliament." I would like to refer to the conditions existing at that time. In 1882 the average rate of interest earned by the Canadian life companies was 6 1/5th per cent., and in that year the investments of the companies were distributed chiefly in mortgages on real estate and bonds and debentures. Those two items formed about 71 per cent. of the total investments. Mortgages were then realizing about 6 per cent., while debentures could be bought to yield between 4 3/4 and 5 per cent. At that time premium rates were calculated and reserves maintained upon a 4½ per cent. basis and there was such a wide difference between the rate earned, that is, say, 6.20, and the rate assumed of 4½, that the companies were juestified in expecting to continue to realize 4½ per cent. for a good many years to come. That is another reason why the companies were justified, to some extent, in estimating as high as they did on those accumulated surplus policies. At that time and until 1898 the investment powers of Canalian life companies, with the exception of two or three, were comparatively narrow. The companies were confined to mortgages on real estate, Government securities, municipal debentures and dedebentures of building and loan societies. Coming down to the period of 1898 the average rate of interest fell to 4.20, a decrease in 16 years of 25 per cent. In that year the largest investments of the companies were mortgages on real estate, 33 per cent., bonds and debentures 31 per cent., and about that period, 1898, it will be recalled that our loan companies whose investments were chiefly mortgages on real estate, were passing through difficult and trying times. In 1896 the Ontario loan companies had 95 millions invested and they had no less than $3,837,000 of properties for sale as the result of foreclosures. In that year alone the companies reported no less than 831 mortgages foreclosed, representing $1,600,000. In the following year, 1897, the amount of real

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

estate held by these companies as the result of foreclosures had increased to $5,960,000, and in that year no less than 862 mortgages were foreclosed, representing a principal sum of 1 3/4 millions. Following down to the year 1898 the foreclosures again increased to the maximum sum of over 6 millions' of money in Ontario loan companies alone. In that year no less than 725 mortgages, representing the principal sum of $1,600,000 were foreclosed. While the life companies in that period did not suffer so severely in their mortgage investments as the loan companies, yet some of them experienced somewhat anxious and trying times. Municipal debentures had also about that time received a set back as the result, as may be remembered, of the failure of Brandon and Toronto Junction to meet interest payments on their debentures. At the same time the Canadian life offices were at a serious disadvantage compared with the British offices, which really had unrestricted powers, and also when they were in competition with the American companies which practically had unrestricted powers. Just to give an idea of what these powers were. It may be said that the Standard Life Office had a very broad charter, which permitted it to invest in practically any security, and also that company which has been referred to, I think, the London Life, which does not employ any agents and whose expenses are very low. At this period the companies were up against two problems; that is the due fulfilment of their contracts, which were based upon the necessity to earn not less than 4½ per cent; and also against the problem of decreased profits to policyholders, resulting in a steady decline of the rate of interest. In order to make the policyholders' security beyond question they realized that the reserves must be strengthened, as was contained in that minute, and further, premiums on new insurance must be increased. And in order to afford an opportunity to maintain and improve the average rate of interest and afford greater security for the investment of funds, a larger number of securities were proposed or suggestel for investment. That resulted in a petition being presented to the Hon. the Minister of Finance, which I will not read, but which was joined in by Mr. J. K. Macdonald of the Confederation Life; Mr. McCabe, of the North American; Mr. Wegenast, of the Mutual Life; Mr. Sutherland, of the Temperance and General; Mr. Junkin, of the Manufacturers'; Mr. Richter, of the London Life; Mr. Kenny, of the Excelsior Life; Mr. Hilliard, of the Dominion Life; Mr. Burke, of the Royal Victoria; Mr. Brook, of the Great West; Mr. Milne, of the Northern Life; and Mr. Dexter, of the Federal Life. In fact it was really a unanimous petition. That petition asked for, practically, the powers now contained in the Amended Assurance Act.

Q.—And at the same time brought up the question of the reserves? A.—Yes.

Q.—And that was brought about in the same way, I suppose? A.—Yes.

Q.—And I suppose now you are referring to the Managers Association again, from their Minute Book? A.—From their Minute Book, yes.

Q.—Have they taken any action since that or is that the last? A.—Yes, they have submitted to the Hon. the Minister of Finance and the Superintendent of Insurance a suggestion which is embodied in this memorandum. It may probably take too much time to read.

Q.—If you will give me the memorandum it will be made an exhibit. A.—The main feature of it is this clause, here.

Q.—The main feature is under clause B, regarding the bonds. Briefly what is the idea? A.—Instead of enumerating classes of securities a broad division is suggested.

Q.—I will read clause B. "The bonds of any company incorporated in Canada or elsewhere, which bonds are adequately secured by a mortgage to trustees or otherwise upon a real estate or other assets of such company; or the debentures or other evidences of indebtedness of any such company which has been doing business for a term of not less than three years prior to the date of such investment, provided default shall not have been made by any such company in any regular interest payment upon its debentures or other evidences of indebtedness within the said period of 3 years prior to such investment; or the stocks of any such company upon which regular dividends have been paid for not less than 3 years preceding the purchase of such stock, or the stocks of any chartered bank in Canada." That is clause B. as proposed. A.—As was suggested by the Canadian Life Offices Association (Memorandum referred to filed as Exhibit 229.)

40th day, June 12, 1906.

(Imperial Life, Mr. Bradshaw, Ex'd.)

Q.—Is there anything else with regard to that? A.—With regard to the change of the Government reserve. At a meeting of the Association held on the 4th May, 1899, at which were present Mr. A. G. Ramsay, President of the Association and then President of the Canada Life, Mr. Junkin, Mr. G. Wegenast, Mr. McClenagan, representing the Great West Life, Mr. Kenny of the Excelsior Life, Colonel Macdonald of the Confederation Life, and Mr. Sutherland of the Temperance and General Life. It reads as follows:—"After considerable discussion of the question it was agreed, on motion of Mr. Sutherland, seconded by Mr. W. C. Macdonald, to recommend that the Bill be amended so as to provide that the basis of valuation be 3½ per cent. for all new business after January 1st, 1900, and that for old business it be 4 per cent. after the 1st January, 1905, and 3½ per cent. after Januray, 1910." There was a petition, which was presented at the same time, I believe, as the petition in regard to investments, and that was signed by the managers of practically all the Canadian life offices excepting the Sun Life, and that petition asked that the reserves be placed upon the basis as contained in the present Insurance Act, excepting in regard to the dates.

Q.—I think that was explained as to the dates. Then you have in the Profit and Loss Exhibit given the securities that were written up and those which there were gains? A.—Yes. (Refers to Exhibit 226.)

Q.—Then you have given us the commissions paid your agents and I think you explained yesterday about the maximum rates which you pay? A.—Yes.

Q.—This is your policy loan agreement? A.—Yes.

Q.—I see that it gives you the right to refuse a premium if the interest is in arrear? A.—Yes.

Q.—Why is that? A.—That is never done.

Q.—Then would it not be better to be out? A.—Yes, I think it would be.

Q.—Then section 3 provides that in the event of default in payment of said interest or of any premium of said policy for one month after the same shall respectively become due, said policy shall be deemed to be and shall be in fact, at the option of the company, surrendered without any notice or act by either party hereto, at the customary cash surrender value? A.—That, of course, would be governed by the terms of the policy, under which there is a non-forfeiture clause which provides that the policy shall be continued in force so long as the cash surrender value is sufficient to pay premiums.

Q.—I do not know that this would be governed by the policy? A.—I think that is made subservent to the conditions of our policy. That is an old form printed some considerable time ago. Would you let me look at that loan agreement. You have not read the whole of that clause, the underlined portion of it.

Q.—Yes. "But this clause No. 3 shall be construed agreeably with the automatic non-forfeiture provision." That is underlined too, but it was quite an oversight on my part. Would you approve of having uniform policies? A.—In the past it does not appear that there has been any ambiguity in the wording of life policies; on the contrary it is believed that the contracts of Canadian life offices have been liberal in their provisions, couched in plain language and free from technicalities. As evidence of this it may be stated that during the past 5 years the total number of policies becoming claims by death was $22,-337,000, while the total amount of claims resisted was about $154,000, or only one-half of one per cent. of the total death claims. If a standard form of policy had been in use say 15 or 20 years ago, it appears to me it would have been greatly to the detriment of the policyholders. The present form of contract of most offices contains many more liberal provisions than policies issued 15 or 20 years ago. These changes in the interest of poicyholders have chiefly been brought about as the result of competition which would not have been at play if a standard form had been in use. If it had been found that the present form of policies of the life companies were ambiguous and unfair to the policyholders or such as might be calculated to encourage contention and litigation, then there might be some ground for considering the question of a standard policy form, but I do not think there is any necessity for such a form to-day.

JUDGE MacTAVISH: Then your answer to the question is, No? A.—Yes, sir.

MR. TILLEY: You put it for the reason that it has not been a hide bound form of policy that has led to the companies giving more liberal

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

provisions from time to time? A.—Yes, they have done so.

Q.—And vying with one another in competition in making the policy more liberal? A.—Yes.

Q.—And that would have been impossible if a standard form of policy had been in use? A.—Yes.

Q.—I think that is important from that standpoint. Then you refer to the not taken policies. From time to time you have got out estimates of surplus and have supplied your agents with these estimates, have you not? A.—Yes.

Q.—I have been going over some of those. You gave estimates in '97, '99, 1900 and 1901, did you? A.—Yes.

Q.—On the Life Plan your estimate in '97 was $152. On a 15 Year Period, age 25, in '99, $109; in 1900, $109; and in 1901, $119. Is that right? Can you follow that? A.—Yes, that is right.

Q.—Then on a 15 Payment policy, $184 for '97 and $169 for 1899, and $178 for 1900 and $149 for 1901. Is that right? A.—Yes.

Q.—I notice that in 1901 the Life Policy increased over 1900 from $109 to $119, whereas the 15 Payment Life decreased from $178 to $149, and the 15 Year Endowment decreased from $305 to $250. How is that variation as between the Life Policy and the 15 Payment and 15 Year Endowment? A.—The same method was employed in fixing the payments in the 3rd Manual as in the 4th Manual, but effect was given to the increased guaranteed surrender values during the dividend period and that had the effect of sometimes increasing and sometimes decreasing the estimate. One age is decreased.

Q.—Between 1899 and 1900 there are but few changes in your estimate? A.—Yes.

Q.—The 1900 book is on the 3½ per cent. reserve basis, I suppose? A.—Yes.

Q.—There was a change in the reserve and I suppose the premiums were changed, were they not? A.—On January 1st, 1900.

Q.—Then would you not expect to have substantial changes in your estimates then? A.—Well, our premiums then were higher than the premiums which we adopted on January 1st, 1900, and we did not care about increasing the estimates, but rather preferred that they should remain as they were.

Q.—In 1901 there was a change to a 3 per cent. reserve basis? A.—Yes.

Q.—And on what basis were the estimates calculated? A.—In regard to the rate of interest?

Q.—Yes? A.—On the assumption that we would earn 4 3/4 per cent.

Q.—I suppose these estimates are all matters, more or less, of competition, are they not? A.—No, not with us, they are not. We have rather prided ourselves on basing our estimates on estimates which we believed would be realized.

Q.—They are for advertising purposes, so to speak, are they not? A.—They are for the purpose of securing business.

Q.—Do you approve of them being issued? A.—No, I cannot say that I do.

Q.—Should they be prohibited? A.—I think it would be better if the companies did not issue them.

Q.—Do you think they should be prohibited or a penalty imposed if a company issued improper ones? A.—I do not like prohibitions and I do not like penalties.

Q.—What would you do about it? A.—I think that the companies might come to realize that it is not in the best interests of the business to publish these estimates.

Q.—The companies might realize that but they have not as yet? A.—They have not so far.

Q.—I will put in that memorandum of comparisons (Exhibit 231.) A.—I think it would be better if a company would publish the results under their policies at the end of distribution periods.

Q.—Do you think that should be published? A.—I do.

Q.—You would give publicity to that? A.—Yes.

Q.—In what shape? Sending it to policyholders? A.—In the Government returns.

Q.—Would you suggest any other publicity in connection with investments than what is now given? A.—Yes.

Q.—Do you think there should be publicity of all transactions during the year? A.—Yes, I would suggest that there should be a statement furnished of every purchase made and every loan made and every security sold and every loan repaid?

Q.—With what object would you have that? A.—In order that the public and the policyholders might know of the dealings during the year.

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

Q.—I suppose, though, there would be ways of getting these securities held in some way outside the office even in that case, would there not? A.—You can devise ways and means to do anything.

Q.—You divide your surplus every 5 years, or you are not compelled to divide it more frequently than that? A.—According to the Act we are not compelled to divide it more frequently than 5 years. but we allocate it every year.

Q.—And you keep an account with the policyholder? A.—With the individual policyholder.

Q.—Does the policyholder get a copy of that account? A.—No.

Q.—Would he, if he asked for it? A.—I don't think we have ever had an inquiry for it.

Q.—Would you think he should be entitled to it? A.—I am inclined to think that it would be better for the policyholder to receive a statement of his surplus when the surplus is due him.

Q.—When would that be? A.—Depending on the distribution period. 5 years.

Q.—Would you send it to him each time, or supply it if he asked for it? A.—At that time the surplus would be due to him and he would have to indicate what method he desired to take the surplus.

Q.—If he had not already indicated? A.—Yes.

Q.—You are not prepared to say that a statement of his account should be submitted to him at any time on demand? A.—I think it would have a very disturbing effect to supply it annually, and I think the life companies should not be obliged to distribute their surplus more frequently than once in 5 years, for the reason that it would be a very fluctuating amount, and I do not think our life insurance companies are large enough in Canada to permit of an average being formed in a period of one year for surplus distribution.

Q.—So you think that would be a mistake? A.—I do. A decided mistake.

Q.—I see that you have a number of policies of other companies, purchased and loaned upon? A.—I think we have only one purchased and two or three loaned on.

Q.—Is that less than it has been? Have you not had more than that in the past? A.—We have had more but not above half a dozen altogether.

Q.—At any one time? A.—No.

Q.—Do you think that it would be advisable after a company has got to the stage where the reserve has been put up and the company is self-supporting, that it should be turned into a mutual company? A.—I think that there might be provision made for a company becoming a mutual company, but I do not think that any company should be forced to mutualize. I think it might be desirable to permit a company to do that.

Q.—But you would not make it obligatory? A.—No.

Q.—You would not insist upon the capital stock being wiped out? A.—No, I don't think that would be at all fair to the shareholders. I think there might be some competition amongst companies to mutualize if such a provision were inserted in the Act.

MR. HELLMUTH: In the Profit and Loss Statement submitted by you for the year 1905 which, no doubt, you have before you, I see that the total loadings make up $147,000 in round figures, leaving out the odd hundreds? A.—Yes.

Q.—And the total expenses outside of investment expenses, not including them, are $252,000. That is your expenses were $105,000 more than you had provided for in the loadings? A.—We had anticipated future loadings to the extent of $105,000.

Q.—And that would make your percentage of expense to loading 170 per cent., I think. Is that right? A.—Yes.

Q.—Now how long in the history of a company do you expect a percentage of that kind to be kept up? A.—That altogether depends on the amount of new business.

Q.—But you would expect to reduce it as the company grew older and the proportion of old to new business increased? A.—Yes.

Q.—Your company has been in existence some 8 or 9 years, for business? A.—About 8 years and a quarter.

Q.—Would you think when it had been twice as long in business, you might have got down to having your loading equal your expenditure? A.—We hope that as a result of this commission we will have it very soon.

Q.—Apart from the Commission altogether, would you expect a company of, say, 20 years' standing to be able to provide? A.—It altogether depends on the amount of new business that company is seeking. If it is seeking a large volume of new business, its expenses may exceed its load-

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

ing for some years, but it would be the aim of every manager, I think, to keep his expenses within his loading.

Q.—You have noticed that in that large list of companies who make returns to the Minnesota State Board, the average of expense to loading is now 96 per cent., which shows that they have got below their loading? A.—I think in looking over it the other day that there were only about 5 or 6 companies that had kept their expenses within their loading.

Q.—The average of all the companies that make returns to the Minnesota State has come down from last year 98 per cent. to this year 96 per cent. For the year 1905 96 per cent? A.—You will notice that there are comparatively few companies there that have their expense within the loading. That list includes the industrial companies, in which companies there is a very large addition to the net premium for loading.

Q.—There are not very many industrial companies? A.—There may not be very many industrial companies, but they bulk, their business is very large.

Q.—You are aware that that has got within the loading, and that is the case with the majority of the English companies? A.—Yes, very generally with the English companies.

Q.—So would it be unreasonable to suggest that a company doing a normal business in the way of increase each year, writing a normal amount, would in 20 or 25 years, at all events, be expected to bring its expenses within its loading? A.—I think it should. I think that would be good management.

Q.—Can you explain at all why the excess percentage in the Imperial and the Canada Life— A.—Do not connect the Canada Life with the Imperial, please.

Q.—No, I ask you if you can explain why the percentage in the Imperial, 170, and in the Canada Life, 162, as we find them, should be so close when one company has only been 8 years in existence and the other about 60? A.—I cannot answer that question, but I will put it this way, so far as the Imperial Life is concerned. The reason why our expenses are greater than our loading is that we are a comparatively new company and that the great proportion of our business has only been placed upon our books a comparatively short period of time and that that would be expected, I think, in any new company.

Q.—Would you, as an actuary, consider it good business for a company that had been 60 years in operation to have an increasing ratio of expense over loading during the last five years? A.—Of course there are conditions to be considered, where the company is extending its business.

Q.—But would you consider it good that a company should extend its business, after being in existence 55 years, in such a manner as to increase steadily for that five years its expense over the loading? A.—I would like to talk about our own company, and not about another.

Q.—I suppose you can give an opinion as an actuary. Will the Imperial Life do that? A.—I hope not.

Q.—If you have anything to say about it ? A.—I hope not.

Q.—Your company has not increased its premium income very rapidly, has it? A.—Just about the normal increase, I think.

Q.—Normal, perhaps, some years. In 1898 your premium income was $155,000 in round figures, and in 1899 you had risen to $297,000, nearly doubled it? A.—Yes.

Q.—But in 1900 you dropped to $259,000. Can you explain that? A.—You are talking about increases now. The premium income of the company has steadily increased every year from the time the company commenced.

Q.—Do you say that certainly? A.—I do, without hesitation.

Q.—I got these figures from the Blue Book; they may, of course, be wrong. The premium income of 1899 is $297,000. Isn't that right? A.—In 1899 the premium income, including annuity premiums, yes. An annuity is always paid in a single premium, and annuities don't come in regularly. Therefore, that will account for the variation in the income in those two years.

Q.—And in 1900 your total premium income including the annuities was $259,000? A.—Yes.

Q.—I say the total premium income, from every source, annuity and otherwise, had dropped some $40,000? A.—As I stated before, in a life insurance company the annuity business is not a constant normal business. In one year you might receive 50 or 75 or 80 thousand dollars in regard to annuities, and in the next year not receive one dollar. That must naturally affect the normal premium of the company and it is absolutely unfair to compare one year's premium income

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

with another without taking that into consideration.

Q.—Then will you give me your premium income without annuities in 1899? A.—I have not got that. It would amount, I am informed to about $196,000 in 1899.

Q.—And what was it in 1900? A.—256,000.

Q.—So that you had an annuity income of over $100,000? A.—About $100,000, annuity premium and single premium.

Q.—Have you had any large an nuity premiums since? A.—Not large ones.

Q.—Then it would be fair to take the years following? A.—Yes.

Q.—We will pass then to 1901, when your premium income is $308,000 roughly, and you increased that to $409,000 in 1902, just about $100,000? A.—Yes.

Q.—You do not increase it quite as much in 1903, you go up to $494,000? A.—It will vary.

Q.—And in 1904 $597,000, just over the $100,000? A.—Yes.

Q.—And in 1905, $681,000, which is a little drop again? A.—About $90,000. About a normal increase.

Q.—About $80,000 is it not? A.—Between $80,000 and $90,000. It is a normal increase.

Q.—You call those normal increases? A.—Yes.

Q.—But your percentage of operating expenses to premium income does not seem to be dropping very much until the last year it has dropped a little. I notice that in 1899 the percentage is 30.6? A.—In 1899 it was 28.3.

Q.—I suppose that takes in your investment expenses? You have left that out? A.—Yes, I have taken that out.

Q.—That would make the difference What do you make it for 1900? 39? A.—34.3 per cent.. No, in 1900 it was 37.2 per cent.

Q.—And in 1901? A.—34.3.

Q.—And in 1902? A.—25.5.

Q—And in 1903? A.—29.9.

Q.—How do you account for those jumps backwards and forwards? A—There is not much variation.

Q.—There is a good deal of varia tion between 35 and 39.6 per cent. Is there any reason that you know of? A.—It shows an improvement in the cost of the business.

Q.—But it goes backwards and forwards? A.—Well, it will in all offices. I have a statement of the expenses of all the offices and that confirms the statement that I have made that it is a fluctuating expense.

Q.—Your company has one peculiarity it struck me, differing from the others. It re-insures an enormous amount of its business? A.—It secures a large number of large policies.

Q.—The average re-insurance of a company like the Canada Life or the Manufacturers' or the Confederation—they do not re-insure more than 2 or 3 per cent. of their business written? A.—That is very easy of explanation. A moment's consideration will tell you that these companies are large companies and carry a large amount of insurance at their own risk. It is only a matter of prudence that a company like the Imperial should carry a small amount at its own risk.

Q.—I notice that there are other new companies that do not re-insure as you do? A.—Unfortunately they have not been benefitted by the receipt of large insurances, as we have.

Q.—I want to see how you are benefitted by this? You pay the commission for the new insurance? A.—As a rule.

Q.—When you re-insure do you get the company that you re-insure with to pay part of the commission or do they take it at net re-insurance? A.—What do you mean by net re-insurance?

Q.—For instance do they share with you in the payment of the commission required to secure that business, if you re-insure for half the amount, does the company re-insuring re-pay to you one-half of the commission? A.—Sometimes, and sometimes it is not re-insured on the same system at all. It depends on the system on which you re-insure.

Q.—I want to get from you whether the cost of obtaining that insurance that you have initiated is returned to you, the proportion of it, when you re-insure? A.—It is when we re-insure on the same plan that the insurance is proposed to us upon, and sometimes we receive even more, for this reason, we have received a great number of risks in respect of which only a very small commission has been paid, or in respect of which no commission has been paid, and we have also a great number of risks on our books in respect of which no renewal commission is paid. In those cases we receive from the re-insuring company a normal rate of commission and a normal rate of renewal commission, therefore these large re-insurances benefit the Imperial Life.

40th day, June 12, 1906.

(Imperial Life, Mr. Bradshaw, Ex'd.)

Q.—Then, as a matter of fact, you make out your re-insurance by charging to the companies you re-insure with, commissions larger than those you are paying? A.—I didn't say that.

Q.—Do you do that? A.—I say that sometimes we receive business under which we pay no commission, and in such cases we stipulate for a normal commission, such as the re-insuring company would pay to its agents, therefore the company benefits in such a case.

Q.—And the other company looses? A.—No, it does not lose. It is only paying a normal rate for the business.

Q.—Then do you explain to the company that you re-insure with that you have secured this business without commission, but that they must pay a commission? A.—No, that is never explained by any company.

Q.—Then the company to whom you take the re-insurance business does not know but what the ordinary commissions have been paid? A.—It never inquires. In any re-insurance that is never inquired, in fire, life, marine, or any other class of re-insurance.

Q.—Then the company that re-insures knows nothing about the cost at which you have obtained the business? A.—As a rule that applies. As a rule they know, as a matter of having some inside knowledge.

Q.—Then will you say that on all the re-insurance business of the Imperial Life there has been a gain in that respect? A.—I cannot say that.

Q.—Will you say there has not been a loss in that respect? A.—I cannot say that. I have never investigated it in that connection.

Q.—So you do not know whether the re-insurance has been a benefit or a loss to the Imperial Life, you cannot say? A.—I can only say that it has protected us in regard to—

Q.—I did not ask you that. I want to know whether it has been a gain or a loss to you in regard to the cost of the business? A.—I would think, speaking generally, that it had been a gain. In the matter of expense that you referred to, it may be of interest to follow that up a little, as you have opened it, and to indicate what the expenses are of the Imperial Life compared with the other life companies, not mentioning their names, situated in the same condition as the Imperial Life has been situated.

Q.—I am quite willing to take it for granted that it is a great deal better. Every company has different places where it is better than any other? A.—In the matter of expense, I refer to that because you have mentioned it yourself and brought it out. Of the companies organized during the past 35 years, only 4 secured their business at a more favorable expense rate than the Imperial Life.

Q.—We won't give the names of those four? A.—No, and those four were all organized over 23 years ago.

Q.—I do not quite understand your explanation in regard to this item of $45,000 shown as a profit in the Profit and Loss Statement in the annuity claims. If the $5,000 was the expected annuity claim maturing during that year, and the actual annuity claim was $40,000, should not that $5,000 be deducted instead of added? making 35 instead of 45? A.—No, you see the company takes credit for the expected loss in mortality, therefore it must take credit for the expected annuity loss, and as the reserves that were released, minus the payments to annuitants, are greater, were a negative quality, therefore it must be added to the previous quantity.

Q.—So that there was, that year, an actual advantage of the 45? A.—Yes.

Q.—I see your total gains on mortality are about $80,000, ten and seventy-eight? A.—$70,000. The gain in respect of first years business is $10,000, in respect of the old business $59,986, about $70,000.

Q.—That would not be sufficient in itself to make up the extra expenses over the loading? A.—No, it would not.

Q.—You would have to use up all the gains in mortality and then come upon your excess interest before you would get enough to meet the actual expenses? A.—Yes, we have anticipated our loadings to a greater extent than the gains in mortality and the loadings for the year.

Q.—Does that mean that in making up the loading part of a premium you do not load purely for profits, it is all for expense, there is no part of the premium loading which is for profits, is there? A.—Theoretically it is.

Q.—But I mean in practice, we may write it off altogether, may we not? A.—Are you speaking generally now?

Q.—Yes. A.—That does not apply to life insurance in general. In Great Britain, for example, nearly one-half of the loading is reserved for profit and expenses.

40th day, June 12, 1906.

(Imperial Life, Mr. Bradshaw, Ex'd.)

Q.—Let us take in this country and then as shown by that table. Practically the entire loading is used up for expenses? A.—Yes.

Q.—So that the sources of profit for participating policyholders may be looked for from the sources of gain in mortality, gain in the rate of interest, and gains upon lapses and surrenders? A.—That has been the experience.

Q.—And such advantages as may accrue from the sale of your securities for a higher price than you paid for them? A.—Yes.

Q.—And when we have exhausted that, we have exhausted the sources practically of profits? A.—Yes, pretty nearly.

Q.—That the policyholder may look to? A.—Yes.

Q.—If that is so is it quite fair as between policyholders to make such very large differences in the loading of the various premiums, because some of your premiums are loaded two or three times more than others; it all goes into expense? A.—Not two or three times. About twice.

Q.—You are much more familiar with it than I am. We will say twice. Is that quite reasonable, that one policyholder should have to pay a loading twice as high as another when there is practically no profit coming from the loading, the profit is all from the gains? A.—By paying that excess amount he is admitted as a partner into the business of the institution and shares in the profits arising from the business of the institution.

Q.—I quite understand that, but why should his brother participating policyholder pay twice as much? A.—I do not quite appreciate that question?

Q.—You have different loadings for different classes of participating policyholders? A.—Yes.

Q.—Why should he pay that? A.—Oh, a variation in the loading.

Q.—Yes. A.—That is according to custom. It depends upon the expenses incident to the class of insurance. On the Whole Life system a certain rate of commission will be paid and a certain rate of expense applicable thereto. 20 Year Endowment another rate and so forth. Theoretically speaking I might say this, that it might be regarded that all premiums should be loaded the same. That, however, has not been found to be workable, I believe.

Q.—There is no principle upon which it is done, so far as I can see, because it is not from the loading that you get your gains, it is from those other sources and therefore you might just as well load all these profit policies the same way; but say to one man we will let you in on a different partnership basis? A.—Well, of course, under the non-participating system, some of the surplus has been anticipated.

Q.—I am not speaking of the non-participating, but among the participating policyholders I cannot see what logic there is in loading differently if they get none of the loading back by way of profits? A.—Well, they do get some part of the loading back in certain companies.

Q.—In your company? A.—No.

Q.—Not in the Canada Life? A.—I don't know about that.

Q.—I can tell you that since this investigation, that they could not have got anything back for the last five years because they were away over, and not in any company so far as I know that we have investigated yet is the loading above the expense or up to the expense. I may be mistaken, but I think not. Now is there any logic in telling a policyholder, you must pay a heavier premium in that way because you are going to get some of it back; that is his idea, is it not? A.—In the expectation that when the good times come the expense will be kept within the loading.

Q.—But a very eminent authority on insurance has informed us that no company has ever reached that period that such good times have come that it does not want to extend its business? A.—Well, I am very hopeful of life insurance in Canada, and I would not be a bit surprised to see the time and not very long when the companies will be able to keep their expenses within their loading, and it surely will come.

Q.—I like your hopeful tone, but it has not come? A.—It will come, though. I don't know about the past. I would not be a bit surprised if we went back some years that we would find such a condition. I cannot speak definitely, though. I think at the present time it may be assumed that the expenses of all the companies in Canada exceed their loading.

Q.—While that is so there is not much logic in the method of differentiating the loading for participating policyholders? A.—Well, the expec-

40th day, June 12, 1906.

(Imperial Life, Mr. Bradshaw, Ex'd.)

tation is that such a condition will not continue.

Q.—And so what has been done in the past has all been done in the expectation of something occurring that has not yet occurred? A.—Well, I say if you go far back you will find the condition existing, the ideal condition existing, and it has been in the expectation that that ideal condition will come back again.

Q.—You have not investigated to find that that ideal condition did actually exist in Canada? A.—From the examination of the expense rates of the companies, I would assume that to be the case.

Q.—When you come to the non-participating policyholder you let him off very lightly, don't you? A.—We charge him a normal rate for his contract.

Q.—I will take the same age that has been taken with some of the other companies. At the age 35, I think it was that Mr. Sanderson took. I won't call them the combined companies, but a number of companies struck the same rate? A.—Yes.

Q.—And you have the same with you? A.—Yes.

Q.—And the premium for that age, without profits, is $22.90. The same in all these companies that joined in this Association. Now the net premium rate for that age at 3½ per cent., and that is what you calculate on, is it not? A.—Yes.

Q.—Is $20.76 on the Hm. tables? A.—These rates, I may say, were based on the American Table of Mortality and 3½ per cent. interest, these net premium rates.

Q.—But should not your premium rates be based on the same table as your reserve is based upon? A.—That cannot always apply, for this reason: a company may have issued a policy 30 or 40 years ago and the table of mortality may have been the Carlyle or the American Experience with 4½ per cent. interest, and at the same time the company may reserve in respect of that policy on another table and another rate of interest, therefore you cannot lay down that the company having fixed by one table of mortality and one rate of interest, should reserve by that table any rate of interest.

Q.—I am assuming that you are to day reserving on a 3½ per cent. basis, Hm. tables, and are getting out new tables for the future business of your company, new premium rates? A.—Yes.

Q.—Should you not get them out on the same table? A.—As we propose to reserve on, yes.

Q.—That would be sound insurance, wouldn't it? A.—Yes.

Adjoruned to 2 p.m.

AFTERNOON SESSION.

—Resumed at 2 P.M., June 12th, 1906.

—Examination of Mr. Bradshaw continued:

MR. HELLMUTH: Q.—We were dealing when the adjournment came with the without-profit or non-participating policy at age 35 and the premium in your company in conjunction with other companies in the Association was $22.90, whereas the net premium would be $20.76, at three and a half per cent., the rate you reserve at, that leaves $2.14 for loading in that case, is it not? A.—Yes.

Q.—Less than ten per cent? A,—No, a little bit over ten per cent.

Q.—Perhaps you did not, but some one said 15 per cent. was required at least for non-participating policies? A.—No, I did not express any opinion of what was required.

Q.—What do you think yourself? A.—I think the loading which is at present put upon those premiums is a fair loading, the loading is 15 per cent.

Q.—This is only ten? A.—As I stated this morning the premiums are based upon the American Experience table of mortality and 3½ per cent. interest, and you have taken the Hm. 3½ per cent. net premium, you have not taken the net premium from the same table of mortality.

Q.—Your gross premium? A.—Is 15 per cent. of the net premium.

Q.—Your gross premium is based on a table that was not issued until 1903? A.—How do you mean?

Q.—That is the time these tables were got up; the date of this is October 1st, 1905? A.—Yes.

Q.—Why base it after what you said before on anything except the 3½ Hm. which was certainly in force then in your company? A.—The reason was that quite a number of American companies had adopted that basis for their non-participating rates, and the Imperial Life with other companies also adopted that basis.

Q.—That was purely to meet competition of course? A.—That was for the purpose of securing a fair rate.

40th day, June 12, 1906.

(Imperial Life, Mr. Bradshaw, Ex'd.)

Q.—Was it not for the purpose of meeting competition; supposing you had been free from the competition of others based upon a less severe table would you not have made, as you said a company should make its premium rates on the same basis as its reserve rates? A.—We probably would if the American companies had not adopted that.

Q.—Then it was, as I said, merely to meet competition? A.—It was because American companies had adopted that table.

Q.—And to meet the competition with them? A.—Yes.

Q.—That is not sound insurance, is it, to put a premium on a different basis from the reserve when you know what the reserve is? A.—Certainly it is, provided you have an adequate loading.

Q.—Your loading here would only be, as you say, about ten per cent. on the same rate as you reserve upon? A.—Yes, that would be ten per cent. for the whole of life and in our opinion that was considered to be an adequate loading.

Q.—Do you consider ten per cent. an adequate loading for the whole life? A.—For that form of policy.

Q.—Would you consider any less adequate? A.—We would consider that a proper loading.

Q.—Would you consider four per cent. or five per cent. an adequate loading? A.—No.

Q.—Would that without-profit policy not require to be assisted by the profit bearing policies or some of the profits of the company in order to carry itself? A.—I have not made an investigation of the two branches, but as I stated this morning I think that the non-profit business of our company would carry itself, that is to say the loadings would be about sufficient.

Q.—Can you give me any idea what the proportion of the non-profit part of your business is? A.—I think about 5 per cent.

Q.—Did you pay any renewal commissions upon that non-profit business? A.—Two-thirds of the renewal commission we pay on participating.

Q.—What renewal commission did you say on the participating? A.—In some cases five and a maximum of 6 per cent.

Q.—So that it would be two-thirds of five? A.—Yes, it would be four or a little bit less than four.

Q.—So that would leave after the first year about 6 per cent? A.—Yes.

Q.—That is to say if no expense was to be charged against it? A.—Yes.

Q.—But that would hardly be fair? A.—No, there would be some expense in addition to the agents.

Q.—And there would also be the proportion of expense and investment of the funds for reserve? A.—Yes, a small fraction.

Q.—So that they would be running it pretty close? A.—I think there is sufficient margin.

Q.—You think it would carry itself in your company? A.—In view of the commissions that are paid.

Q.—Can you tell me what proportion of your business is written upon the deferred dividend system roughly? A.—I would think about 85 per cent.

Q.—Upon the deferred dividend? A.—Yes.

Q.—That is not where the quinquennial profits are taken? A.—No.

Q.—That would leave 15 per cent. for all other plans, out of which 5 per cent. would have to go for non-participating? A.—Yes, about ten per cent. for five year distribution.

Q.—There is only ten per cent. in your company on the five year distribution plan? A.—Yes.

Q.—And the rest is all ten, 15, and twenty and twenty-five years? A.—Not 25, 20 years.

Q.—20 year is your limit.

Q.—Ten, fifteen and twenty year deferred dividend system, or whatever you call it? A.—Yes, accumulative surplus, deferred dividend, semi-tontine; we call it accumulative surplus.

Q.—That means if the person insured lives out the period his profits go to the survivors? A.—Yes.

Q.—The man paying that higher premium loaded in that way, whose policy became a claim before the last year or the final year of the period, would lose all that he had paid in for profits? A.—Lose all that had been accumulated for profits under his policy.

Q.—He would be no better off, indeed, than the non-participating? A.—No.

Q.—Although he would have paid a very much higher premium? A.—Yes.

Q.—I suppose you object to the word gambling, that is the chance element? A.—No. I would not say that.

Q.—Not even chance; can you find a milder word than chance? A.—I will give you an illustration, you apply to-day to two different companies on two different forms of policies, non-participating, and one company you apply

40th day, June 12, 1906. (Imperial Life, Mr. Bradshaw, Ex'd.)

for a whole life policy with an annual premium of $25, and the other company you apply for a twenty year endowment, and the annual premiums of that would be $48; you die two years from now, would you say in one case you had lost—

Q.—I certainly would if I got the same insurance for $25? A.—You did not get the same insurance.

Q.—If I had got an insurance that in the case of death would bring me in the same amount I would say I had taken my chance for the difference to get something for myself, not for my family; that was just my idea? A.—There are two different forms of contract, and you are contrasting the with-profit contract with a without-profit contract.

Q.—No, I say you take your deferred dividend contract? A.—That is something like an endowment.

Q.—In contra distinction to either annual or quinquennial profits? A.—Yes.

Q.—If a man takes a quinquennial profit policy or an annual profit policy in any system at the end of the period, a year or five years, his profits are allocated to him? A.—Yes, if he dies say in the six years he would lose one year's profit, if he died in the 7th year under the five year distribution—

Q.—Does not that all appeal to you for annual distribution of profits? A.—No, it does not; there is another element which enters into it, the stability of the companies.

Q.—We assume these are all stable? A.—You cannot eliminate that because it is the foundation of life insurance, and if you begin to distribute profits which you have no right to distribute then you interfere with the solvency of the company.

Q.—I am perfectly with you, if you distribute profits you have no right to distribute; but I am assuming at the end of any given year there are profits there earned, why should not you then distribute those profits? A.—Because the company has not got a business sufficiently large, nor are some of the companies sufficiently old enough to form an average for a yearly distribution of profits.

Q.—But are they old enough to form an average for a five year? A.—Yes, I think they are.

Q.—I do not know whether you were here during the time the actuary of the Canada Life was giving his evidence, but he made it abundantly clear, or endeavored to do so, that if you died during the period of the quinquennium you would get your proportion of profits in the Canada Life? A.—Yes.

Q.—You know that is so? A.—Yes.

Q.—So that your argument would not apply at all— A.—Not to the Canada Life but it would to some other companies.

Q.—Is it not eminently just and fair that the profits earned should go to the man who paid in instead of to somebody else? A.—My view in regard to that is simply this, I do not advocate the deferred dividend system, on the contrary I believe it would be better if the companies were to eliminate that from their business.

Q.—But the policy of your company is such that 85 per cent. of its business is upon the deferred dividend system? A.—For the simple reason that we are by the force of competition compelled to do this.

Q.—Is it not so with you that many of the positions that you take as a theorist are as an actuary the very reverse of the positions taken in practice by the companies? A.—In many instances.

Q.—And you would like to get back to really what you believe sound principles? A.—I am an advocate of sound principles in life insurance.

Q.—But you are not strong enough to carry it out in your own company? A.—Nor is any man strong enough in this country or in Great Britain or in the United States.

Q.—In regard to rebating, you have certainly given rebating a black eye? A.—I think rebating should be put away.

Q.—And yet you have even personally yourself bowed to the inevitable of the preponderance of the evil force? A.—Others have to in their professions and callings of life.

Q.—Could you tell me about what amount of surplus you have to the credit of the deferred dividend system, or have you calculated your surpluses? A.—We have.

Q.—They are shown? A.—On these individual cards.

Q.—Are they shown at all in the Government reports? A.—Not separately.

Q.—But as a whole? A.—Yes.

Q.—You have lumped them together? A.—Yes, altogether the total surplus to the company is given.

Q.—And that would apply to the deferred as well as to the other? A.—Yes.

40th day, June 12, 1906.

(Imperial Life, Mr. Bradshaw, Ex'd.)

Q.—Have you got your surplus on policyholders' account for 1905, is that shown in that profit and loss statement? A.—No.

Q.—I see here for 1904 (in the blue book) it was $581,000 odd? A.—Yes.

Q.—Is that increased? A.—Yes.

Q.—I see it has increased to 650,000 odd dollars? A.—Yes.

Q.—That surplus is a constantly increasing factor until a division comes? A.—Yes.

Q.—I failed to understand how the transaction with Senator Fulford was insurance at all, is not that a liability, that $100,000? A.—How a liability?

Q.—Don't you owe somebody $100,000 with interest at a certain rate? A.—We are paying the instalments as they fall due regularly.

Q.—But do not you owe a capital sum of $100,000 payable, we will assume Senator Fulford had not died, payable 25 years after his death? A.—It was more than the $100,000.

Q.—Whatever it was, you owed that? A.—Yes.

Q.—Do you show that amongst your liabilities? A.—Most certainly.

Q.—In what class? A.—Among the reserves on the policies.

Q.—Why is it a reserve on the policies? A.—Because it is a combination of life insurance and life annuity.

Q.—Tell me where it is life insurance, what has it to do with life insurance, you borrowed practically? A.—No, we did not borrow—

Q.—Is not this the transaction; supposing you come to me, we will assume I am a monied man— A.—Supposing you come to the Imperial Life.

Q.—Let me take it the other way? A.—That won't be the right explanation.

Q.—Well, I come to you and I say I would like to lend— A.—That is not the way.

Q.—Well put it this way, I would like to lend you $100,000 at 3¾ per cent. payable at my option at 25 years certain, or if I should live, in 25 years after my death, would that be anything but a loan? A.—No, that is not the transaction at all.

Q.—Would that be anything but a loan? A.—I cannot go into suppositious cases of that kind.

Q.—I think you are quite competent to deal with a transaction of that character? A.—I will state the facts, if you wish them.

Q.—If you decline to answer I cannot push it any further, but I would like to know whether that would be anything more or less than a loan? A.—I will state the facts.

Q.—You won't answer my question? A.—Because it is not the case.

Q.—I did not say it was your case, I want to put that case to you, I come to you and I suggest you should take $100,000 of my money, and that you should repay it to me at my option, either in 25 years or in 25 years after my death with interest meanwhile at 3 per cent.? A.—That is not the transaction.

Q.—But would that transaction be a loan? A.—I could name half a dozen transactions that would be a loan just as well as that would be, but I hardly think it is proper to connect a transaction of that kind which is entirely foreign to the transaction.

Q.—I will give you every chance to explain yours; I want to get the distinction, would the transaction in your opinion be a loan or life insurance? A.—There is no connection between the two.

Q.—Is mine a loan? A.—You can probably answer that as well as I could.

Q.—It seems to me that is a very simple matter; if you say you won't I will take your answer, but only when you say you won't? A.—I do not wish to be discourteous.

Q.—I should not take it as discourteous, but if you say I would rather not answer? A.—I would rather not answer.

Q.—Would you tell me what was the life insurance feature of Senator Fulford's transaction, what was life insurance in it? A.—We determined what was the single premium for an assurance of $3,750 payable in 25 annual instalments, and the single premium to secure $100,000 payable in 26 years after his death; we also determined the single premium to secure to Senator Fulford a life annuity during his life of $3,750. Having determined these premiums we paid the amount down, as a single sum.

Q.—Can you tell me what that amount was? A.—That amount as stated yesterday was $100,000.

Q.—As a matter of fact you paid him 3¾ per cent. upon that $100,000 during his life and during 25 years thereafter? A.—Yes.

Q.—Is that right? A.—Yes.

Q.—And at that date you re-paid the $100,000 that he had paid you? A.—If you come to our office to-morrow morning and asked for a life annuity of $3,750 we would charge you

40th day, June 12, 1906.

(Imperial Life, Mr. Bradshaw, Ex'd.)

a certain single premium; if for example Mr. Shepley came and asked for a policy of life insurance for a certain amount payable at his death, and you were at the same age, we would also charge a certain single premium that would secure the two transactions.

Q.—I want to get back to the question I asked you, it was exactly 3 3/4 per cent. upon the amount he paid that you undertook to pay him during his life? A.—You can reduce to percentages any premium that is charged by a life insurance company.

Q.—And you have to re-pay the exact amount he paid you, the $100,000 afterwards? A.—It is done by numbers of companies.

Q.—That may be so; I am sorry I cannot see the insurance feature in it? A.—I may say further in connection with that transaction the Department of Insurance has always valued and treated these contracts as two contracts, one of life insurance in respect of which they saw we put up the full reserve in respect of that of life insurance, and one in respect of annuity, regarding which they saw we put up the full reserve for that life annuity each year.

Q.—But the result of the transaction could have been effected with a company that did not transact life insurance business at all? A.—I do not know, it depends upon their power.

Q.—With an individual then who did not transact life insurance at all? A.—It is questionable.

Q.—If one was willing to pay 3 3/4 per cent. upon money one could have done for Senator Fulford just as much as the Imperial Life did for him? A.—No, because they would not have the benefit of re-insurance; we protected our interest not only in regard to the amount involved, but also in regard to the fall in rate of interest.

Q.—I am speaking of supposedly a wealthy capitalist, say Senator Cox, that he had said to Senator Fulford "You loan me $100,000 and I will repay it at 3 3/4 per cent. interest," he would not have required— A.—Still it would have been essential for an individual to protect himself on account of the comparatively high rate of interest; our rate of interest was 3½ per cent., and owing to the long future it was expected that that would be 3 per cent—

Q.—Don't you think there are a great many people who would be willing to pay 3 3/4 per cent. for money to-day to take $100,000 and pay 3 3/4 per cent. for a period of 25 years with an option of longer? A.—It is very, very doubtful, and the $100,000 depends upon the death of the man.

Q.—And it was 25 years beyond his death? A.—It depended upon the date of his death; that death may not have taken place for 25 years.

Q.—And it might have been fifty? A.—Yes.

Q.—At the time you made the examination of the Temperance & General and the Manufacturers, did you see the managers of both companies at that time? A.—At the time I made the examination?

Q.—Yes? A.—Yes, the examination was made at their request.

Q.—So that you saw them both? A.—Yes.

Q.—And had consultations with them? A.—Yes.

Q.—Were both the managers of both companies anxious to bring about the amalgamation? A.—I do not think Mr. Sutherland was as anxious as Mr. Junkin, although I cannot say that Mr. Sutherland strongly objected to it. I think at the time there was a view held that probably both would be connected with the amalgamated companies in some capacity or other.

Q.—Did you know what that arrangement was as to their both being connected? A.—No, it never took form.

Q.—You did not know what the inducement was that was held out to those managers as to the positions they would occupy respectively in the new company? A.—No, I cannot speak for a certainty about that; I did not know who was to be the senior officer.

Q.—But they were both to be in the new company? A.—I had that impression.

Q.—You did not discuss that with them? A.—I think I did, I think it was a matter of discussion.

Q.—Do you know why it was not carried out? A.—No, not in detail.

Q.—I notice that the total insurance in force at the close of 1904 was $17,672,000, and that the total insurance in force at the end of 1905 after deducting re-insurance, which you did before for the previous year, was only in round figures about $18,000,000, or only an increase of some three hundred odd thousand dollars? A.—I do not think those figures are right.

Q.—These are the figures from this book? A.—It is an increase of about two million dollars. These are the figures.

40th day, June 12, 1906.

(Home Life Insurance Company.)

Q.—But you have to take from that the re-insurance? A.—You have to for this too.

Q.—No, the total policies in force after deducting is $17,672,000, you see that in the blue book of 1... Where do you find the deductions for re-insurance here?

Q.—I thought it was there? A.—I do not see it.

Q.—Where is the corresponding entry here for the re-insurance? (In the blue book.) A.—There it is, $1,583,000, showing the net amount $16,089,000.

Q.—What would be the amount now? A.—$17,988,000, an increase of almost two million dollars.

Q.—Is that a normal increase? A.—I think last year our lapses were a little bit higher than in previous years for this reason, during last year there was a good deal of disturbance in life insurance and I think it affected the stability of the policyholders, and as a result I think our lapses in common with the lapses of other companies were greater.

Q.—Rather abnormal? A.—I think so. There is a matter I would like to answer before I leave. There appeared in two of the newspapers, one last evening and one this morning, a statement in regard to the loan of the Imperial Life in the West. One newspaper stated we had had eight foreclosures. The statement that I made was that during a period of eight years we had only two foreclosures of mortgages, and that in each case the amount returned to the borrower was over $1,000.

MR. SHEPLEY: In regard to this company also, subject to what may happen in the future, the examination is closed. With regard to the next company, I am proposing to take up the Home Life. Within the last few minutes I have had word that a witness whom I desire to call first in order to present the case in an orderly fashion has gone out of town. I hope to have him in the morning, and I am not sure that it would not perhaps be time gained if Your Honors would adjourn now till to-morrow morning. I can of course go on with historical statements, but I would rather have the witness here.

JUDGE MacTAVISH: If you think that time can be saved by an adjournment now we will adjourn.

MR. SHEPLEY: I think all the time we have been sitting this is only the second time we have ever shortened a day for any reason.

JUDGE MacTAVISH: Then we will adjourn until to-morrow morning.

—Adjourned at 3 P.M., Tuesday, till 10.30 A.M. to-morrow, Wednesday, June 13th, 1906.

FORTY-FIRST DAY.

MORNING SESSION.

Toronto, Wednesday, June 13th, 1906.

MR. SHEPLEY: I have to make a statement, and to make a suggestion to the Board this morning. We are all ready so far as the documents are concerned, and so far as our examination of the records are concerned, to proceed with the examination into the affairs of the Home Life Association. We cannot do that, however, except at the sacrifice of efficiency, without the evidence of a particular gentleman, who I am afraid is keeping out of the way as a matter of policy, and I suggest to the Board that no person should be permitted to affect our proceedings by taking a course of that sort, if the gentleman is taking that course. It is better that there should be a little delay than that there should be any sacrifice of efficiency. I feel very strongly that I shall go on in a crippled condition without the presence of the gentleman to whom I refer; and my suggestion to the Board is that after I have made this statement the Board should adjourn until to-morrow, by which time if he is not here we shall be ready to go on with something else. As I say we are entirely ready in the matters of the Home Life with the exception of the absence of the particular witness to whom I refer. It is quite right to say that the person is not at present in the employ of the Home Life Association, so that there is nothing to be said with respect to the Association at all, but that is the position in which we find ourselves and I venture to think that it is much better that the public should understand that this enquiry won't be hampered in any way by that sort of thing, that we will wait, if necessary, until better counsels prevail rather than go on without the presence of any witness we consider desirable. My suggestion, therefore, is that the Board rise till to-morrow morning, at which time if he is not here I shall be prepared to go on with another enquiry. I want again to say we are entirely ready; it is

not a matter of not being ready, we are entirely ready so far as we are concerned but for the single fact that I speak of.

MR. McLAUGHLIN: Mr. Chairman, and gentlemen of the Commission, I wish to say on behalf of the Home Life Insurance Company we are also ready. The witness Mr. Shepley desires to be here was a former Manager of the company over whom we have no control at the present time, and I have been using every effort I possibly could for the last three days to locate him, and have not been able to do so. We are just as anxious as my learned friend that the witness should be here to be examined.

MR. SHEPLEY: I do not doubt that at all.

MR. McLAUGHLIN: We are willing to submit to my learned friend's request for an adjournment, or to any other arrangement that he desires, so that the witness in question or any other of the former employees of the company should be obtained. Every witness and every person at present in the employ of the Home Life will be produced by the company when required.

MR. HELLMUTH: I do not know that it is necessary to add anything. The course suggested by my learned friend Mr. Shepley seems an eminently proper course to follow. If he, conducting the enquiry, says a witness is necessary and material for the proper elucidation of the matter in hand it must follow the enquiry would be very much hampered and very ineffectual without that witness. Mr. McLaughlin says it is no fault of the Home Life in any shape or form that the witness is not here.

MR. McLAUGHLIN: I have never had an opportunity to even interview the witness in question, and do not know him personally. We made every effort we could to get him.

JUDGE MacTAVISH: In view of what has been said by counsel it is inevitable that there must be an adjournment for the day. It is very unfortunate that this break occurs, but as has been stated the efficiency and the thoroughness of the Investigation cannot be sacrificed in any way. If the witness does not appear to-morrow morning you will have something else?

MR. SHEPLEY: I will go on with something else. I do not want to delay the general enquiry at all, but I do not want to commence an inquiry into a particular subject without all my ammunition being at hand.

JUDGE MacTAVISH: I think that is quite right. The enquiry will stand adjourned till to-morrow morning at 10.30.

—The Commission accordingly adjourned at 11 A.M. Wednesday, June 13th, to Thursday, June 14th, at 10.30 A.M.

FORTY-SECOND DAY.

MORNING SESSION.

Toronto, Thursday, June 14th, 1906.

MR. SHEPLEY: Mr. Osler has come with reference to the gentleman whose name was not mentioned yesterday to your Honours at all. And who was thought to be a necessary witness in connection with the Home Life. My learned friend tells me, and I accept it entirely without any qualification, that the gentleman is away on business and is not at all intending to evade examination. He is not able to be here to day; and I am, for the reasons I stated yesterday, prepared with another matter instead of going on with the affairs of the Home Life.

MR. OSLER: I would like to say, as the gentleman's name was mentioned in the papers as keeping out of the way, that he is engaged in the construction of a line of electric railway which necessarily takes him out of ordinary communication. He called me up by telephone this morning at half past ten telling me he had no intimation whatever from any source that his presence would be required, and that he would come back to-night, if he is asked to do so, but it will be extremely inconvenient for him to do so.

MR. SHEPLEY: He need not come at present, if you will give us his address.

MR. OSLER: He was very much annoyed at the reports that he was keeping out of the way. He will be available on reasonable notice at any time.

MR. SHEPLEY: Then if my learned friend will give me the method of communicating with him it will be all right.

We are proposing to take up the Life Managers' Association this morning.

42nd day, June 14th, 1906.

CANADIAN LIFE INSURANCE OFFICERS' ASSOCIATION.

(Thomas Bradshaw, recalled.)

MR. TILLEY: Q.—You are already sworn; you are the Secretary; I believe, of the Canadian Life Insurance Officers' Association? A.—Yes.

Q.—It is about that Association that I want to ask you this morning and it has nothing to do with the Imperial Life any more than to any other company that belongs to that Association; how long have you been the secretary of the Association? A.—Assistant Secretary in 1899, and Secretary about 1900. Prior to that Mr. Henry Sutherland was the secretary.

Q.—When was the Association formed? A.—In 1894,

Q.—And who were the persons who brought the Association together? A.—The names of the first persons were Messrs. A. G. Ramsay of the Canada Life; J. K. Macdonald of the Confederation Life; J. G. Richter. of the London Life; William McCabe of the North American Life; J. F. Ellis of the Manufacturers' Life; William Hendrie of the Ontario Mutual Life, now the Mutual Life of Canada; Thomas Hilliard of the Dominion Life, and Henry Sutherland of the Temperance & General Life.

Q.—Was it an Association of officers or an Association of companies? A.—It is an Association consisting of the managers and other officers of the companies.

Q.—Is the manager or the officer admitted to membership, or is the company admitted to have its manager and secretary members? A.—It is the company.

Q.—The company is permitted to have its manager and secretary members? A.—Yes.

Q.—That is the way the matter comes up for discussion? A.—Yes.

Q.—Resolved that such a company shall be admited to membership, and thereupon its manager and secretary become members of the Association? A.—Yes.

Q.—When was any constitution adopted by the Association? A.—Towards the close of 1894.

Q.—And was a printed constitution then adopted? A.—Yes.

Q.—And is this it? A.—This is a re-print of it (filed as exhibit 232.)

Q.—It is the original constitution as it may have been amended or al-

tered down to the date this was printed? A.—Yes.

Q.—This was printed in 1901? A.—Yes.

Q.—As revised down to May 23rd, 1901? A.—Yes.

Q.—Some amendments have been made since this constitution was printed, and those amendments are shown in the copy which is made an exhibit? A.—Yes.

Q.—Does the constitution stand now as this exhibit is with the printed and written parts interlined? A.—Yes.

Q.—The officers are given in 1901 as Past Presidents A. G. Ramsay and J. K. Macdonald; and then the officers for 1900-1: President, W. M. Ramsay, of the Standard Life; First Vice-President Henry Sutherland of the Temperance & General Life; Second Vice-President B. Hall Brown of the London & Lancashire Life; Secretary-Treasurer Thomas Bradshaw of the Imperial Life; and Auditors E. W. Cox of the Canada Life and J. K. Junkin of the Manaufacturers' Life. The Executive Committee consisted of the officers and J. K. Macdonald of the Confederation Life and William McCabe of the North American Life. Then I notice there were two honorary members A. G. Ramsay and William Hendrie; they had retired from active duties in connection with Life Insurance, Mr. Ramsay being of the Canada Life? A.—Yes, and Mr. Hendrie of the Mutual Life of Canada.

Q.—The name of the Association shall be the Canadian Life Insurance Officers' Association. Article 2 gives the objects (reads). Has it ever received any corporate rights? A.—Application was made for incorporation, and letters patent were issued, but the Association never organized under them.

Q.—Letters patent under the Ontario Government or the Dominion? A.—Ontario.

Q.—That is the Association by letters patent obtained incorporation but never proceeded to organization? A.—No.

Q.—When did you apply for the letters patent? A.—That would be about 1901 or 1902.

Q.—What induced you to apply for the letters patent? A.—At that time it was thought desirable to enter upon the publication of a journal and in connection with the expense of that it was deemed desirable to se-

cure funds and it was further thought desirable that it might be the means of recognition by the legislatures of other Provinces and by the Dominion.

Q.—One object was to publish a journal regarding matters of interest to companies, I suppose? A.—Yes.

Q.—And the other was to give you a status in any action you would take as a body? A.—Yes.

Q.—Then having obtained the charter what induced you to drop it? A.—Some of the members thought they might be incurring greater liabilities than were intended, and there was some other legal difficulty, I don't remember what it was, I think one was whether the companies were by their charters permitted to hold stock in an Association of this character—I think that was the legal point.

Q.—The way in which it was incorporated you would have capital stock? A.—Yes.

Q.—And the intention was that the shares in the capital stock of the Association would be held by the different companies represented? A.—Yes, not by the individuals, because it was the companies that were members.

Q.—Then the question arose as to whether a company would be authorized so to invest its funds? A.—Yes.

Q.—Do you remember what the capital stock was, or have you the charter here? A.—No, the capital stock was very small, I think it was apportioned about $50 to each company.

Q.—And that was all I suppose that would be required for the purpose of the Association? A.—I think so.

Q.—Who would have the charter that issued? A.—I have the charter, and I can let you have it.

Q.—Have you the minutes, or could you put your hands on the minutes relating to the corporation—what date do you say it was? A.—I find there is this resolution about it on the 1st December, 1900: "That in the Association applying for legal incorporation the capital stock be fixed at $2,000, in shares of $50 each; that Mr. E. T. Malone, K.C., be instructed to act in the matter, and that article 1 of the constitution be amended, so that the name of the Association shall be The Life Insurance Officers' Association of Canada." Then on February 21st, 1901, there is a minute to this effect: "In making a report as Secretary I said: 'That the solicitor had found that the Provincial authorities objected to the last two words "of Canada" in the name. After considerable discussion it was moved by Mr. Junkin, seconded by Mr. Hilliard that this Association apply to the Ontario Government for incorporation under "The Canadian Life Insurance Officers' Association," and that the application be accompanied by a request signed by the chief officers of each association represented in the memberships.'" On the 23rd May, 1901, there is a minute: "The Secretary reported that the petition and stock books in connection with the legal incorporation of the Association lacked but two signatures. These were expected to be secured immediately." On the 21st November, 1901: "Communication from Mr. E. T. Malone, K.C., referring to the difficulty connected with the organization of the company under the letters patent was referred to by Mr. J. K. Macdonald, and some of the reasons set forth why it would be undesirable to proceed therewith. It was moved by J. K. Macdonald, seconded by W. McCabe, that the organization of the Association under the Ontario Companies' Act be deferred for the present." That is the conclusion of it.

Q.—That was no doubt when the discussion took place as to the possible liability of members of the Association? A.—Yes.

Q.—And the impropriety of companies having capital stock in it? A.—Yes.

Q.—The second point referred to, the company taking capital stock, would be under the investment power of the Act? A.—Yes.

Q.—You thought it would not come within the investment power? A.—Yes.

Q.—I suppose that was not the serious point? A.—It might have been in the case of a few; it might not be regarded as serious, though I remember that was brought up.

Q.—That could have been avoided in some way by having the manager subscribe and pay it, it would be a small amount, that would not be looked upon as a very serious item for a manager to pay himself? A.—No.

Q.—The serious matter would be the liability of members? A.—Yes.

Q.—Can you say in what respect members feared that they might become liable? A.—It was proposed then to embark upon the publication of an Insurance Journal, and to employ assistants, an editor and so forth.

Q.—Do you mean the contract liability of being the owners of the paper or liability for something that might

appear in the paper? A.—In both respects; it might be in regard to the publication, the expenses incurred in the publication, it might be a loss, and in the second place what might appear in the paper might be a subject of litigation, or something of that kind.

Q.—As to the carrying on of the paper one would think that being incorporated the company would be liable for the expense of carrying on the paper? A.—Yes, it would be.

Q.—It would not seem possible that the individuals could be saddled with much liability there? A.—Not under such an Act.

Q.—That would leave really the serious matter I suppose, with the actions that persons might take against the Association in respect of something done by the Association? A. —Yes.

Q.—Can you say what class of action might be brought against the Association? A.—None was mentioned that I recall; it was just the general feeling that there might be liability.

Q.—Some liability might attach and they had better drop it; has that subject of obtaining some corporate recognition been discussed since that time? A.—It has informally, there is no record of discussion in the minutes.

Q.—You mean to say the members have had some informal discussion as to the propriety or advisability of doing it? A.—Yes.

Q.—Then how long? A.—Ever since the idea of incorporation was first mooted.

Q.—Since this scheme fell through? A.—Yes.

Q.—What is the most recent attitude of the members towards that subject? A.—It has been thought that there might be recognition given to the Association in the same way that recognition is given to the Bankers' Association by the Banking Act.

Q.—You are referring now to the Canadian Bankers' Association? A.—Yes.

Q.—That is Chapter 93 of the Dominion Statutes of 1900? A.—Yes.

Q.—"An Act to incorporate the Canadian Bankers' Association;" what discussion has taken place about that, what is the object of the Association in endeavoring to obtain that status? A.—The companies felt that if they were incorporated in that way that they would feel more free to work with the Government in connection with insurance matters, that it would give them a status throughout the country and also give them a status with the Dominion Government and also with the Provincial Government in connection with desirable legislation in respect of life insurance, that there would be, as it were, a bond of sympathy between the Government which has taken a great deal of interest in life insurance through its legislation, and the companies; in the same way that the Bankers' Association is associated with the Government now in the working out of the Bank Act.

Q.—Would it be mainly to give the Association strength in bringing about legislation? A.—That would be one means, and another object would be in connection with the amalgamation of life insurance companies, in connection with the transfer of life companies.

Q.—What do you mean by that, how would the incorporation of the Association have anything to do with that? A.—Under the Banking Act you will notice that the Bankers' Association is referred to before amalgamations or transfers take place, and they are chiefly, I think, brought around as the result of the members of the Bankers' Association; it would appear that amalgamations, transfers and re-insurance of companies should be clearly brought out by legislation and through a proper channel rather than through private acts or through private arrangements of companies.

Q.—You think that they should all pass through this simple body? A.—I think it would be desirable in the interests of sound life insurance.

Q.—Tell me what danger there is in that branch that you anticipate could be avoided by having the Association? A.—It was not thought of so much as danger, but it was thought if there were proper machinery provided the work would be conducted better and in probably the better interests of policyholders, shareholders, and in life insurance generally.

Q.—Is there any other object you think that would be attained by having the Association incorporated, or given corporate powers? A.—Not at this moment.

Q.—I notice in this Act the Bankers' Association is authorized to print and publish a journal? A.—Yes, that of course was intended———

Q.—Would that be intended now for the Association? A.—I think it would be.

Q.—You think it would be of advantage to have a journal for distribution amongst the insurance people, people interested in insurance busi-

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

ness? A.—I think it would be very desirable, it would tend to elevate the business, disseminate sound principles and practices.

Q.—And have you in that connection studied this Act of the Bankers' Association? A.—Not critically.

Q.—You think something on that principle would serve the Insurance Association? A.—I think so.

Q.—And nothing definite though has been done in that regard? A.—No.

Q.—No action has been mapped out to obtain incorporation in that way? A.—No.

Q.—Then article 3 deals with the membership in the Association and provides: "It shall consist of the Managers, Assistant Managers, Secretaries and Actuaries of the regular Canadian and British Life Insurance companies now members of the Association, and all officers of the same standing in Canadian, British or United States Companies that may hereafter be admitted to the Association by resolution at a regular meeting after notice, the right to vote being limited to the officer of each company highest in rank who may be present at each meeting"—and this is the amendment —"Provided that any company already represented in the Association, and whose office is outside of Ontario and Quebec, may, subject to the approval of the Association, nominate a suitable person to represent the company at any meeting of the Association in the absence of the regular head office official"? A.—That minute was placed there so as to permit of substitute officers attending of companies whose head offices were some place distant from either Toronto or Montreal, where the meetings have hitherto been held.

Q.—Authorizing them practically to vote by some other official named by them? A.—Yes.

Q.—Have you had many applications since the Association was formed by companies to become members of the Association? A.—Yes, at the present time the membership of the Association comprises 19 companies.

Q.—The names of those companies were given at the end of this pamphlet? A.—Yes.

Q.—How many of those have joined since the Association was formed? A. —I would say roughly speaking about one-half.

Q.—And then have any companies applied to become members and been rejected? A.—Yes, one or two offices have sought admission, but their applications were not favorably regarded.

Q.—Tell me in a general way what matters come up for consideration when a company applies to be admitted? A.—The financial standing of the company.

Q.—You mean as to its solvency? A.—Yes, and the administration of the company; those two are the chief matters which are considered.

Q.—When you speak of solvency do you admit companies other than those that are required to keep up a reserve under the Insurance Act? A.—No, only those companies that are known as legal reserve companies.

Q.—Are any of such companies insolvent? A.—No, not insolvent.

Q.—You say solvency is one of the matters that come up? A.—Well, impairment of capital.

Q.—If a company's capital is impaired is it allowed to enter the Association? A.—That is not a bar, but if it is thought that there is a general decline each year in financial strength that there is no headway being made in strength its application is deferred, not declined but left over.

Q.—So that you do take into consideration the repute of the company and the method of carrying on business? A.—Yes.

Q.—And if you find it seems to be going behind you do not allow it to enter the Association? A.—Not at that time.

Q.—Why would you not permit it to enter into the Association, would not that be an assistance to the company in order to establish itself on a firm footing later? A.—There is divided opinion among the members in that respect, some think it might be desirable to admit all companies irrespective, because by doing so they would benefit by the discussions that take place, and by the transactions of the Association, and it might be an education for them and a help. Others again take the view that the impress of the Association on such a company would indicate that it had the approval of the Canadian Life Insurance Officers' Association, in other words that it was endorsed by the Association.

Q.—Is it a matter of pride then, or of any feeling of real responsibility for the company? A.—It is pretty hard to say what it is. The concensus of opinion however is that it is better that such companies should not be permitted to join the Association,

that has been the view up to date? A.—That has been the prevailing view.

Q.—When you speak about administration of the company, what do you mean, as to whether or not the company will carry out the understanding that is arrived at between the members of the Association? A.—No, not that exactly, whether it is issuing a policy contract which might be regarded as a fair contract, whether it is conducting its business in the home office and on the field in a way which commends itself to the other members, and whether its premium rates are such as will be sufficient to carry out the contract.

Q.—Whether or not it is cutting rates? A.—Yes.

Q.—Whether it is getting probably the older companies' agents under conditions that are not thought to be quite proper? A.—Yes.

Q.—And giving too large rebates, would that be regarded as an objection? A.—Yes, it would be an objection.

Q.—According to your statement though the other day that is rather prevalent? A.—Yes, it is prevalent, and I judge that there is not much said about that at the time a company applied for admission. Just at this point, if I may be permitted I would like to say in my evidence in regard to rebating I had no intention whatever to refer to the evidence given previously by officers of other companies, and that in saying that I believed, notwithstanding any evidence to the contrary, that rebates had been given, I would like to be placed on record as having made that statement without due consideration.

Q.—Do you expect us to take any different view of the general practice? A.—I should like to speak only of my own company.

Q.—You want to acknowledge your own imperfections? A.—I don't care about acknowledging imperfections, but I will speak for my own company.

Q.—And what you say is you do not wish to be taken— A.—In a position to speak for others.

Q.—And discrediting the evidence they have given? A.—Yes.

Q.—When a new company applies for membership in the Association, no matter what the older companies do, rebating is regarded as an impropriety of this new company? A.—No, I have not heard.

Q.—You do not hear that raised against a new company, that it is giving rebates, and it should not give

any rebates? A.—No, I have not heard that.

Q.—That is a little matter that is passed over, that is not raised in the Association at any rate? A.—No.

Q.—Rebating has not been treated seriously? A.—It has been treated very seriously by the Association.

Q.—But not so seriously as to refuse admission? A.—Not on that alone.

Q.—I think we should put in this charter, and that is the only document you have regarding the incorporation? A.—Yes.

Q.—No by-laws were ever passed, and no organization meeting was held? A.—No.

Q.—The capital stock was not paid up and never allotted? A.—No.

Q.—After setting out the names of the persons who became incorporated—I see it incorporated individuals rather than companies? A.—Yes.

Q.—It sets out the purposes and objects as follows: "To advance the interests of life insurance companies in Canada," etc. (Reads charter, which was filed as Exhibit 233.) The letters patent are dated 22nd July, 1901? A.—Yes.

Q.—Has that question ever arisen in the Association whether your Association is one that is in restraint of trade? A.—No.

Q.—You never discussed that? A.—No.

Q.—Do you know how it got into the charter? A.—No, I should judge that is a general term.

Q.—It is a saving clause inserted by the Department? A.—I suppose it is.

Q.—So that the Department would not be deemed to be authorizing you to do anything that would be in restraint of trade? A.—Yes.

Q.—But that subject has never been discussed? A.—No.

Q.—Honorary membership is provided for and the officers set out. The officers shall be a President, First and Second Vice-Presidents, Secretary-Treasurer, Assistant Secretary, and two Auditors who shall hold office for one year or until their successors are appointed. The Secretary-Treasurer and Assistant Secretary's duties are covered by article 8 (reads). There is an annual subscription fee of $25. I see the fees are on page, 10, article 2 (reads); are those all the funds that the Association received? A.—Yes.

Q.—The membership fees? A.—Yes.

42nd day, June 14th, 1906.

Q.—There is no service rendered or paper published, or anything done by the Association that brings in any return from persons other than the annual subscription from members? A. —No.

Q.—Of what nature are the expenditures of the Association? A.—Printing the Minutes, constitute the important item of expenditure the travelling expenses in connection with legislation or in the interests of other matters that required attention at other points than Toronto. For example, it was found necessary to make a representation to the Nova Scotian Legislature some time ago in connection with an objectionable clause in the Insurance Act of that Province, and an official of the Association had to proceed there and his expenses were paid. And when a solicitor is employed his expenses, of course, are always paid by the Association.

Q.—Then the Assistant Secretary in conjunction with the Secretary-Treasurer will notify all members of the meetings. How often are the meetings held? A.—Regular meetings are held once a quarter. In February, May, September and November. Sometimes special meetings are held at intervening periods. That is provided for by Art. 10.

Q.—Special meetings, I suppose, would be called where action was required at once? A.—Yes.

Q.—There is an Executive Committee composed of the Vice-President, the Secretary-Treasurer, Assistant Secretary and the Past Presidents of the Association for the preceding years, and the auditors. Then there is power to amend the constitution or by-laws by notice and the changes must be specified. Are those all the by-laws? A.—Those are all.

Q.—Is there no provision amongst the members that they will all abide by the decision of the majority? A.—No, there is an Article on page 9 which states that no resolution or recommendation of the Association shall be held as binding on any company until approved by its Board of Directors, but after such approval the same shall be acted upon until rescinded by the Association or until the sanction of the Board of Directors is withdrawn and such withdrawal shall have been intimated to the Association in writing.

Q.—That means that a resolution to be binding on any company must be approved by its own Board of Directors? A.—Yes.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

Q.—And that it is binding so long as they have not given any notice that they will not be bound by it? A.—Yes.

Q.—What sort of action is it that you regard as binding the Company? A.—There are very few matters that have come up. I do not think that any matter has come up yet in respect of which the companies feel bound to adhere to it.

Q.—Has the sanction of the board of directors of any company ever been obtained to anything that the Association has done? A.—I cannot speak of the case.

Q.—In your position as secretary have you received notice from any company that its board of directors has approved of some action that the Association has taken? A.—I don't know that I have. I am not sure. I may have. The resolutions and matters taken up by the Association are generally treated with apart from the board of directors of the companies. If anything is concluded at a meeting it is presumed that the members of the Association and their companies will recognize that resolution, and we have not required as an Association the strict carrying out of this article.

Q.—That is you have reversed the position; unless the company repudiates it you assume that the company intends to be bound? A.—Yes.

Q.—But strictly under the resolution the companies directors might first approve and then the companies are bound until notice is given? A. —Yes.

Q.—If any notice has been given would it appear in the minutes? A. —I think so. Almost sure to, because it would be brought up in the meetings of the Association.

Q.—Are there any minutes outside of these? A.—These are the entire minutes of the Association.

Q.—Are there any records of action taken outside of the minutes? A.—No.

Q.—Suppose a company is bound by a resolution and does not observe the act of the Association, what means have you of enforcing it? A.—No means at all.

Q.—Is there any agreement between members of the companies with regard to that, outside what is shown by the resolution? A.—No, none whatever.

Q.—There is no penalty? A.—No penalty.

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

Q.—Is there any money deposited with any person by the companies that they will observe the rules? A.—No.

Q.—Has that ever been attempted to be done? A.—No, not to my knowledge. I think that in connection with a rebate agreement—but that was before my time—that something of that kind was attempted. I am not very sure about that, though.

Q.—You are referring now to what I found in the minutes regarding an attempt at putting down rebating? A.—Yes.

Q.—And that was being done by an agreement which was to be signed by the companies? A.—Yes.

Q.—And under that agreement you understand that some penalty was provided for? A.—Yes.

Q.—Although that was before your time and you don't know just the nature of it? A.—No, I don't.

Q.—Was the agreement ever concluded that you know of? A.—Not to my knowledge.

Q.—We will come to that later, but for the present I would like to know whether you can direct me as to where I can get that agreement or a copy of it or the draft of it? A.—I have never seen the agreement and I think the only person who would know about it would be the former Secretary Mr. Henry Sutherland.

Q.—It was prepared in his time? A.—I believe so.

Q.—Do you understand that it was ever signed by any of the company? A.—Not to my knowledge.

Q.—It was prepared and then dropped without being executed at all? A.—I believe that to be the case.

Q.—Then so far as the Association is concerned there seems to be nothing. Is there any application for membership put in in writing? A.—A letter generally is sent to the Association intimating that such and such a company would like to become a member of the Association.

Q.—There is nothing incorporated in that application in the way of an undertaking to stand by what the Association does? A.—No, none whatever.

Q.—Is a company free to resign at any time it wants to? A.—We have had one case, and there was no objection made to the company resigning.

Q.—No objection has ever been made? A.—No. I don't see anything in the laws regarding the passing out of a company.

Q.—You spoke of a desire on the part of the companies to become incorporated or get some official standing with respect to different matters that it wants to advance? Is one of those matters the exchanging of information between companies with regard to rejected applicants for insurance? A.—That has not been considered as one of the objects of the organization, but it might be one that might be included.

Q.—Does the Association now take any part in such work as that? A.—The companies, members of the Association, report all their rejected lives to a bureau and that bureau furnishes to each company information concerning the lives rejected.

Q.—I see that on November 24th, 1894, at the second meeting, I think, of the Association, or during the first year at any rate,— That was the meeting at which the Constitution and By-laws were adopted? A.—Yes.

Q.—This statement appears in the minutes:—"The Secretary stated that he had been asked to favour the admission of an assessment company to the benefit of the Bureau on rejections and had promised to bring the matter up at a meeting of the Managers. The question of admitting the society was also deferred for consideration at next meeting?" Q.—Now at that time assessment companies were not members? A.—No and they have not been members since.

Q.—Has any exception been made to that? A.—No.

Q.—I thought that the Home Life, while it was an assessment company was admitted as a member? A.—It has never been a member of the Association.

Q.—Was it admitted to this Bureau of rejection? A.—Admitted to the bureau, yes.

Q.—The Association saw no objection to the Home Life securing the benefit of the information concerning rejected lives.

Q.—Then on November 24th, 1894, when this minute appears, the bureau regarding rejections was then in existence? A.—In existence, yes.

Q.—Tell me the nature of the bureau at that time? A.—It is the Library Bureau of Boston. All the life companies in the United States and the life companies in Canada send to that bureau on appropriate cards particulars of lives found to be ineligible for insurance, and that bureau reprints the information on the cards, and furnishes each company with a copy of that card.

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

Q.—Then that is an Association again in which companies are members and not individuals? A.—No, it is not an association, it is a regular business concern.

Q.—Run for a profit? A.—I presume so. The company simply pays so much to it for the information, the printing and distribution of the information.

Q.—But the company besides paying the money to the Library Bureau, must agree to give this information regarding its own rejections? A.—Yes, before it receives the others. It is a central body.

Q.—A central point to which any company that gets any benefit from the Bureau gives this corresponding information? A.—Yes.

Q.—And that is sent to Boston how often? every month? A.—Every two or three days we receive a batch of cards. It may be every day.

Q.—Every two or three days you receive information as to persons rejected by other companies? A.—Yes.

Q.—I suppose you could let us have a specimen of the form letters used and the information given? A.—Yes, I would have to send for them.

Q.—Then within what time must you send information of a rejected applicant for insurance? A.—Immediately that the applicant is rejected.

Q.—Is that done constantly? A.—Yes.

Q.—The same day or next day? A.—It just depends on the office work.

Q.—But there is no special time within which you must do it? A.—No. I might say that the system has somewhat changed of late years. Instead of reporting the lives rejected the report of which is made now is of defects in the life, whether the life is accepted or rejected. By that means it was thought that a company receiving the information would be more unprejudiced in the review of its own papers, because the action of the company furnishing the information is not given.

Q.—Can you tell me when that change took place? A.—Speaking from memory, I should think that would be four or five years ago.

Q.—Is that the only time that any special change has taken place in the method of carrying on that Library Bureau? A.—So far as I can remember.

Q.—Would there be anything in the minutes to show the time the change took place? A.—No, it was regarded as simply a modification of the system.

Q.—Before that change was made, if I applied to your company for insurance and was refused, the moment that happened my name would be sent to the Library Bureau of Boston as a person who sought insurance and was rejected? A.—I won't say a moment, but shortly afterwards.

Q.—And that is all the information that would be given, or would the reason for the rejection appear? A.—No, the reason for the rejection would not be given, but the company rejecting would be written to by the principal company, to seek the information.

Q.—Having sent that information on to Boston, at the Boston office a list is made up of all similar information received that day and my name is then put in the schedule with others? A.—Each one is put on a card, a separate card for each name.

Q.—Then you keep that in a filing index? A.—Yes, if an application comes in, the first thing a life office does is to refer to that card system.

Q.—My name is put on a card and is the name of the company refusing put on the card? A.—The companies go by numbers and the number is given.

Q.—No. 6, we will say, is the Imperial, then 6 would be put opposite my name.

Q.—Then any other information on the card? A.—Yes, address, date of birth and occupation. The date of birth is especially important because there are frequently persons of the same name.

Q.—And that gives the birth, occupation and residence? A.—Yes.

Q.—That is for identification only? A.—Identification, yes.

Q.—There is nothing on that yet that shows whether I am refused for a slight or a substantial reason? A.—No.

Q.—Then when the company gets that information about me, the card is put in their card index? A.—Yes.

Q.—Then if I go to apply to some other company for insurance later, my name is turned up in the index and I am found there among the rejected from the Imperial? A.—Yes.

Q.—Then the manager writes to the Imperial? A.—Yes, and seeks the information, the reason why we acted unfavorably upon your application.

Q.—He asks you why you refused the application on my life? Are you

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Exd.)

bound to give him the information? A.—No.

Q.—Is there anything in your contract with the Library Bureau that calls upon you to give information to other companies? A.—No, I don't think there is any contract between the Library Bureau and the companies.

Q.—Surely there must be a contract that you will supply information about every rejected person? A.—No, not that I know of, but no company that I know of has refused, because if it did, it could not expect to get information from that company in return.

Q.—I don't know. There are probably not in the insurance business, but in other walks of life, there are people who try to get all they can, and in return give as little as they can. That, however, does not apply in this case, you think. You think the company has no object in refusing to give the information? A.—No, I don't see any object in refusing.

Q.—Take it this way, don't you often have persons applying for insurance who probably are doubtful themselves whether they will be accepted or rejected and do not care to make an application if there is a chance of being rejected? A.—I presume there are such.

Q.—Persons who doubt whether they can get insurance, put it that way? A.—Yes.

Q.—There are lots of such people? A.—Yes.

Q.—And are there not many of these people who do not want to make an application if it is known that they will be refused and sent on with the other information about persons who are not fit for insurance? A.—Yes, I have come across such.

Q.—Then do agents not, in such cases, sometimes withdraw the application? A.—I think the company feel under obligation to report every case that is presented to them.

Q.—Then put it this way, do not agents sometimes get the applicant examined before he has made any application, to see whether he will pass or not? A.—Yes, I think in some cases that is correct.

Q.—Then the man feels perfectly safe that his name has not gone forward, does he not, because he has never made an application? A.—Yes.

Q.—Do the companies still send his name on if they find out about that? A.—If they know his name.

Q.—Whether he has signed an application or not? A.—I would think so.

Q.—So that no matter what precaution the man takes to prevent his name being sent forward, it is sent forward if he is found out? A.—I cannot speak for every company, but I think that is generally the case.

Q.—The idea of the insurance companies, rightly or wrongly, is to make that as complete a bureau of information on that subject as it is possible to make it? A.—Yes, and I think they have succeeded in doing that pretty well.

Q.—So where the agent of the insurance company appears to be standing in with the applicant to prevent his name being sent forward, if he is rejected, he is rather leading him a bit? A.—I think so.

Q.—Because the information is sent on. What is the practice of insurance companies as you have ascertained it with respect to giving information when applied to for particular facts as to rejection? A.—The information is always given. I cannot recall that information was ever withheld.

Q.—And the report that the doctor made regarding the applicant is given to the other company freely or a copy of it? A.—No, not a copy but the unfavorable features of the case.

Q.—Then does that have the effect of preventing a man getting insurance when he might otherwise get it? A.—It has the effect of bringing to light conditions which he did not disclose in his application to the company which he is now applying for.

Q.—You require the applicant in his application for insurance to state all the facts truly? A.—Yes.

Q.—And, I suppose, you have the usual clause that if there is any misleading statement in the application, or any untrue statement, that the policy will be void? A.—Yes.

Q.—And if he makes an untrue statement that does void the policy? A.—If it is material, as provided by the Ontario Insurance Act.

Q.—Legislation has required that? A.—Yes.

Q.—Then you know, do you not, or the company knows very often that the applicant is making an untrue statement? A.—When they receive this additional information.

Q.—So that they know that the applicant sometimes is making an untrue statement by reason of in-

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

formation received from another company? A.—Yes.

Q.—And do they not sometimes then go on and insure him, notwithstanding that they know that his application and policy taken together may not be of any use to him if there is a material misleading statement? A. —Never.

Q.—They never take it? A.—No.

Q.—Never heard of such a case? A. —No, never heard of it. The companies do not invite litigation nor do they invite poor risks.

Q.—But if they can take insurance with heads I win tails you lose, wouldn't they do that, sometimes? A.—No, I don't think so. I think the taking on of insurance by a regular life insurance company is made almost a science. That is the selection of risks is, I think, almost a science. I am speaking of companies generally.

Q.—Yes, I am not talking about the Imperial now. Supposing it is found that a man has made an untrue statement in an application. The company may still insure him? A.—They would investigate thoroughly before they would decide one way or the other.

Q.—Let us assume that they investigate and come to the conclusion that it is all right to take the risk; then they take the risk and do you know whether it is the practice of insurance companies to see that the application is corrected so that the true information is then put in the application? A.—No, I don't know that that is done, but if they find that there has been information given to them which is not correct, which they believe not to be correct, they will find out for themselves whether it is or is not correct, and after having found that out they will either accept or reject. And having once accepted I don't think that any company will take advantage of a mis-statement made by the applicant at the time he applied.

Q.—You think that no company would take any objection to the payment of a policy merely because there was a misleading statement made in the application, so long as they knew that it was mis-leading at the time they issued the policy? A. —No, I am quite sure no Canadian company would take advantage of such a situation. In fact, I may say, as I referred a day or two ago, that litigation in life insurance is infinitesimal and I think, if anything, it may be said that the Canadian companies, and in that I may include the British and American companies here, have been more than generous in their treatment of policyholders upon a claim being made.

Q.—I suppose it is looked upon as bad advertising? A.—Yes, and they vie with one another to pay the claim promptly.

Q.—That is advertising? A.—It is good business.

Q.—It would be a great injury to a company after receiving premiums, for many years, to contest the policy on trivial objections? A.—It is never done.

Q.—Don't say it is never done? A. —On trivial objections, you said. I have never heard of it being done.

Q.—I think probably it is done in some cases, though? A.—I think there will be a distinction. You must distinguish between the regular life insurance companies and other than regular life insurance companies.

Q.—Must you distinguish between members of the Association and other companies? A.—No, I won't say that. I say, other than the regular life insurance companies.

Q.—Regular reserve life insurance companies? A.—Yes. It is notorious that some companies other than regular life insurance companies, contest claims?

Q.—Do you mean assessment companies? A.—There are two or three assessment companies that are known to have contested claims. I do not refer to them as a class.

Q.—Now, on February 16th, 1895, I see this memo. in the Minute Book. "The letter of Mr. C. C. Hine referred to in the minutes of last meeting was again discussed and a number of the members of the Association were able to speak very favourably of his method of reporting rejections." Do you know what his method was? A.—No, I cannot recall what it was. I don't know that I ever knew, but no action was taken in regard to the method that he proposed.

Q.—Nothing was done about it? A. —No.

Q.—"The Secretary was requested to write Mr. Hine informing him that the Association recommends the several companies to subscribe for his work, providing it is made to embrace reports from the leading fraternal and co-operative societies operating in Canada." Does that bring anything to your mind about it? A.—No. I presume it was a system of procuring information in regard to rejected lives

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

by fraternal and assessment associations.

Q.—Are fraternal and assessment associations members of this Library Bureau? A.—No.

Q.—So it was probably a larger idea to bring in those assessment and fraternal companies? A.—Yes, a second arrangement, not to disturb the Library Bureau, but in addition to it.

Q.—Is that something that you would think beneficial from an insurance standpoint? A.—Well, I judge that all the informatian the companies can receive in regard to rejected lives would be valuable.

Q.—Then I see, "The question was raised at the last meeting with regard to the Home Life Association and that was considered and the Secretary instructed to write to that society stating that this Association will not object to its admission to the benefits of the Library Bureau." Is Mr. Hine compiling a book of information of that kind now? A.—Not to my knowledge. He is the editor of the "Insurance Monitor" of New York.

Q.—Then the Home Life was admitted on that date? A.—To the Library Bureau, not to the Association, though.

Q.—Was that against the rule that they should get the information? A. —The arrangement was that only the companies recommended by the Association should receive the information from the Library Bureau.

Q.—Can you tell me when that arrangement was made or where there is any evidence of the terms of the arrangement? A.—No, I cannot. It has been, I think, in existence since the Association was formed.

Q.—Before the Association was formed were Canadian companies interested in the Library Bureau and did they receive information from it? A.—Yes, I think so.

Q.—Then, after the Association was formed, there must have been some new arrangement made? A.—Yes, I think that the Association or the Library Bureau, I don't know which, suggested that all companies that were to benefit by the information of the Library Bureau, should be recommended by the Association. I don't know whether there is any memorandum of that on the records or not.

Q.—I have not been able to find any? A.—That was the understanding and is the understanding now.

Q.—So that all companies that get the information, that is all Canadian companies, must be members of this Association? A.—Recommended by the Association.

Q.—Then this form that you have handed me. (Exhibit 234), is the form used by the company sending information to the Library Bureau? A.—Yes.

Q.—A different form would be used where the Library Bureau sends information to the company? A.—The information received from the Library Bureau comes in this form. This is a package received this morning by our company and it has just been opened. It contains these cards.

Q.—This form where you give the information is headed this way, "Company Number." You put your number there? A.—Yes.

Q.—"No. of Report," you keep them in consecutive order? A.—Yes.

Q.—"Date of impairment?" A.—That would be the date of advice to the Library Bureau.

Q.—The first column is the name of applicant, surname first. Next column, occupation. Next, birth place. Next, date of birth. Then, reference Number. Do you keep those in regular order? A.—As explained, the system now is not to intimate whether the life is declined; not to intimate that the life has been rejected, but to indicate the defects found in the life. There is a code book for that and the number signifying the character of the defect would be inserted under reference number.

Q.—You would turn up the code book and find out what the man has, whether No. 673 or No. 674? A.—Yes, whether two members of his family had died of consumption, whether he has heart disase or whatever might be the case.

Q.—Then the next column is headed "Code symbol." That is the name this man will travel under hereafter? A.—Yes.

Q.—So that there is nothing that comes to your office on your form that indicates the real name of the man, is there? A.—Yes.

Q.—I mean when you get the information don't you get the code symbol? A.—No, the code symbol has also reference to the defect.

Q.—Not to the man's name? A. —No.

Q.—I thought you used a substitute for the man's name? A.—No, we use his own name.

Q.—So the real name of the applicant is sent to every company? A. —Yes.

42nd day, June 14th, 1906.

Q.—I understand that this form is the form now in use? A.—Yes.

Q.—And it is much more complete than it was before? A.—Yes.

Q.—In that this does not say that he is rejected, it is a list of rejected applications? A.—No, of defects found in the life.

Q.—Supposing you found no defects? A.—He would not be reported.

Q.—If there is nothing recorded against the man he would not be found in the Bureau? A.—Yes, if there is no defect found in the man he would not be reported to the Library Bureau.

Q.—The former report would be only a list of the rejected? A.—Yes.

Q.—Giving the date of birth, I suppose. Then the information you get is only a small card, cut to uniform size and prepared to insert in your cabinet? A.—Yes.

Q.—And these cabinets are supplied by the Library Bureau ready for you to use the system? A.—Some are supplied by that concern.

Q.—Then the name is given at the top, say "Smith, John." That is the surname first so that you can file it away and hunt for him under the Smiths? A.—Yes.

Q.—And then his occupation, clerk, and the date of his birth, where he was born; then there is a number here, 59, what would that be? A.—That would be the Company reporting.

Q.—Then the date of the report is the next item? A.—Yes.

Q.—Then "8931" is the complaint the man has? A.—Yes.

Q.—I find one here "substitute card," what does that mean? A.—A card has been previously sent for that life, and it has to be discarded and that card substituted. It may be that the information sent previously was incorrect or that additional information has been received.

Q.—At any rate you take out the old card and put in a new and make a complete change of rating for him? A.—Yes.

Q.—Then here is "Corrected card." That would be for some error I suppose? A.—Yes.

Q.—Do companies ever divulge to the applicant that they get this information about him, or is an attempt made to keep that as confidential as possible? A.—The idea is to treat it as confidential information.

Q.—It is understood among insurance people that applicants for insurance will not be told of this by the agent or any official of the company? A.—Yes.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

Q.—Then on May 29th, 1897, "a letter from the Library Bureau was read with reference to admitting the Merchants Life to its benefits." What was the Merchants Life? An old line or an assessment company? A.—I cannot say. It is a company that has gone out of existence. I am inclined to think it was an assessment company.

"It was moved by Mr. Junkin, seconded by Mr. Marshall, that the request be not granted, on the ground that it is not a regular company. Carried." That shows that the Library Bureau wanted to deal with this Merchants Insurance Company and exchange information with it? A.—The Merchants Insurance Company would write to the Library Bureau and ask for this information, the Library Bureau would write to the Association and ask for its advice.

Q.—Ask for permission, practically? A.—Yes.

Q.—That is, it could not give the information under the arrangement it had entered into without the permission of the Association? A.—No.

Q.—But there was no penalty on them if they did, no agreement to put a penalty on them if they did that? A.—No.

Q.—It was just a term of the continuance of your patronage, so to speak? A.—Yes, and the understanding was that only regular life insurance companies would be in association in the Bureau.

Q.—Now, why not let the company have that information? I am not saying let it into your Association, but what reason would there be for refusing that company the information you were getting, and obtain the information you desired? A.—For the reason that the Library Bureau is a bureau of information from regular life insurance companies.

Q.—The Home Life got in when it was assessment? A.—Was it an assessment then?

Q.—I think so. '95, and it was an assessment up to '99? A.—That was my understanding, that only regular life insurance companies were to be admitted to the benefits of the Bureau, and I think that was the reason why the Merchants Life was not admitted.

Q.—Why not admit them? A.—I think it was not because the Association would not, but simply because we understood that the Library Bureau information was only to come

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

from the regular life insurance companies. It would mix up the plan that had been agreed upon by the Library Bureau and the regular life companies.

Q.—I think the resolution I read regarding the Home Life said it was an assessment company and there cannot be any doubt about it, because that was in '95? A.—The Home Life may have had at that time expectations of changing. I cannot speak definitely on that point because I was not there and do not know.

Q.—There is no reason why an exception should not be made, I suppose? A.—No, there could not have been an exception made, I think. There should be no exception made.

Q.—Can you tell me any reason for that distinction? Is it because of rivalry? Because the old line companies will not treat assessment companies as real insurance companies? A.—No, I don't think that is the reason. The original arrangement by the American life insurance companies with the Library Bureau—which arrangement was entered into some time previous to the Canadian companies entering into the arrangement was that the information should only come from the regular line companies of the United States and that same idea was carried out in Canada, that only the regular line companies should contribute and receive information from this Bureau.

Q.—Is it because you did not want to give the benefit to the other companies or because you thought their information would not be given to you or would not be of any use to you? A. I cannot give the reason.

Q.—Was it because of anything different in the method of medical examination? A.—It may be that the assessment and fraternal societies would not agree to come into the arrangement, to make the same arrangement with the Library Bureau. I cannot tell the reason.

Q.—Is the Independent Order of Foresters a member of this Association now? A.—No.

Q.—And never has been? A.—Never has been.

Q.—Is this the resolution that you refer to, Mr. Bradshaw, regarding the change in the system? On November 19th, 1902, there is a resolution on the 3rd page of the minutes of that meeting. That shows the time that that was discussed and that would be soon after the change was made? A.—Yes.

Q.—And there has been no change in that since? A.—No, none.

Q.—I suppose it is known that exchange of information by the companies would be resented by the applicants for insurance? A.—I don't think that they know that this exchange is going on.

Q.—They probably would resent i if they did? A. I cannot say what attitude they would assume towards it.

Q.—Has any action been taken by any individuals regarding the giving of information, that you know of? A.—No.

Q.—There have never been any suits brought or threatened? A.—No.

Q.—By reason, we will say, of a company refusing to insure an applicant because of some incorrect information received from some other company or the Library Bureau? A. No, I have never heard of such.

Q.—I suppose mistakes must be made, we saw cards to-day where some were corrected? A.—Mistakes in information given?

Q.—Yes? A.—Oh, yes, that will take place occasionally.

Q.—And might, probably, cause the rejection of some person who would not otherwise be rejected? A.—Well, I have never heard of such a case as that.

Q.—Do you know whether it is the practice of the company to uniformly apply to the rejecting company for information before going so far as to reject the applicant himself? A.—I think it is very generally done.

Q.—Notwithstanding, I suppose, the fact, that the company would not under all the circumstances be willing that the company should know that it was proposing to insure? A.—Yes.

Q.—The desire to get the information more than off-sets the desire to keep its own business private as to insuring that applicant? A.—Yes, I think that is right.

Q.—There was some general resolution, I think, against admitting assessment societies, was there not? Do you remember it? A.—No, I cannot recall it.

Q.—Has the tendency been to keep out the small companies or do you think there has always been some honest objection to the company? A.—In the admission to the Library Bureau?

Q.—Yes? A.—No, I think that whenever a company has applied for the benefits of the Library Bureau, it

42nd day, June 14th, 1906.

has been freely accorded to that company.

Q.—If the system is proper it should be made as complete as possible, should it not? A.—That is my opinion.

Q.—Then would you agree that it would be better to have all companies contribute? A.—All the regular life companies.

Q.—And assessment, too? A.—I think it might be desirable to have that done under a separate system.

Q.—Why under a separate system? A.—The great number of companies that would be reported might be troublesome under one system. The business of the regular life companies is very large, and the business of the assessment companies is quite large.

Q.—You think it would be sufficient to have two systems at work? A.—Yes, I think it would be desirable.

Q.—Another subject that you intimated the Association can, with advantage, concern itself in, is the subject of legislation by different Provinces? A.—Yes.

Q.—And the Association, I gather from what you have said, has concerned itself with legislation in some of the provinces besides Dominion legislation? A.—Yes, in several of the Provinces.

Q.—Can you tell me what particular legislation of the Provinces it has taken any active interest in? A.—In the Revenue Act of the Province of Ontario.

Q.—That is the Assessment Act? A.—Yes.

Q.—Any others? A.—In the Assessment Act of British Columbia and the, I don't know whether it is called the Assessment or Revenue Act, of the Province of Quebec.

Q.—I think you spoke of some other Act in Nova Scotia? A.—Not in that connection.

Q.—What was the Nova Scotia Act? A.—It was in connection with a clause they had about the policy being incontestable, I think from the date of issue, or something of that kind. No, I think it had reference to the age of the assured and there was an objectionable clause in that Act with reference to the age of the assured.

Q.—What was the nature of the objection to it? A.—I think this was it, that if the company took no objection to the age given by the applicant, after a period of two years from the date of the issue of the policy that it would be assumed that the age given by the applicant was the correct age.

Q.—That is assumed absolutely and not capable of being controverted? A.—Yes.

Q.—Or that it could be controverted? A.—It could not be controverted. It would be assumed that that was the true age of the assured. That you can see, in a moment, would lead to fraud on the part of applicants. A man who might be fifty years of age would take chances by representing himself as say 40 years of age and secure a life policy at the younger age in the expectation that he would survive the two years and that the error would not be discovered in the two years. That would be not only fraud, but also greatly to the detriment of the other policyholders. He would be getting his insurance at a much less rate than the other policyholders in the company of the same true age.

Q.—Is there not a great laxness in the companies in getting that question of age settled, once and for all when the application is put in for a policy? A.—I would not say laxness, but I think there has been greater energy displayed by the company lately in securing proof of age of the applicant. At the time of making application for insurance in most instances it is impossible to furnish satisfactory proof of age.

JUDGE MacTAVISH: Is it easier for the widow after the death of the insured? A.—No, but at the time of the man's application the relative who would be able to give proof of age is not present. It may be that the evidence to be given would be from the family Bible and that may be in the hands of a relative and not in the city or town. It may be that the evidence to be furnished is that of a birth record and the man is not in the place where he was born.

Q.—The closing of the contract of insurance is looked upon as a matter of urgency and time cannot be wasted in looking up these records? A.—Sometimes a man desires to effect a policy of life insurance very hurriedly.

MR. TILLEY: Nothing like taking him when he is in the humour, any way? A.—We always endeavour to do so.

Q.—These trifling details can be fixed up any time before he dies or after? A.—We offer him every facility, by calling his attention in the notices for premiums that it is desirable to do this and that the company

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

will be pleased to furnish forms with which to prove age.

Q.—Do you do that in the Imperial Life? A.—Yes.

Q.—In the notice as to the premium becoming due there is a clause as to his age? A.—Yes.

Q.—Do you send him the same form regardless of whether he has proved his age or not? A.—Yes.

Q.—So that he is continually getting this reminder? A.—Yes.

Q.—And that is done for the purpose of getting that point cleared up? A.—Yes, the companies are very anxious to have no trouble whatever at the time a claim falls in, but as I said before they vie with one another in paying the claim promptly.

Q.—Do you find in your experience that the number of policies that become claims where the age has already been proved is increasing lately? A.—Increasing, and will increase as the company grows older.

Q.—Why do you say that? A.—In respect of the old business.

Q.—But I mean to say you speak of a difference between the present system adopted by the companies and the old system? A.—Yes.

Q.—Are they endeavouring to get this age question settled and out of the way now, at an earlier stage? A.—Yes, I think that all the companies have a clause somewhat similar to what I have referred to in their premium notice, and I think all the companies are anxious to have the age proved at the earliest possible moment.

Q.—Of course the failure to give the correct age does not now void the policy? A.—No.

Q.—In any of the companies? A.—That is a matter of Dominion legislation and would apply to all companies. No policy is voided on account of error in age, but the beneficiary receives just exactly what he pays for the true age.

MR. LANGMUIR: What happens if after death it is discovered that a wrong age was given? A.—The amount of insurance which the beneficiary is entitled to is that which the premium would purchase at his true age and he gets what he has paid for.

Q.—That is, you make a calculation of the proper age? A.—Yes.

Q.—And do you deduct that from the face of the policy? A.—No.

MR. TILLEY: You take the true age of the applicant and the amount of money he has paid you and find out what amount of insurance that would have given him if he had paid that amount and told the truth? A.—Yes.

JUDGE MACTAVISH: Will Mr. Bradshaw illustrate that.

A.—Yes, if a man insured say at the age of 50 and his annual premium was $40 per $1,000 and it appeared when he died that his true age was 52 and the true premium was $42. Since $42 will buy $1,000 of insurance, $40 will buy a smaller amount, whatever that is. That is the way it is calculated. He gets what he has paid for.

MR. TILLEY: Did you ever find out that a man had misrepresented his age so that he was entitled to something extra on his policy? A.—Yes, we provide for that in our policy by paying him, not more insurance, but by returning to him the excess premium he has paid. For this reason, that the company in taking that life insured it for not a greater sum than the principal sum in the policy. It did not agree to insure the man for more than $1,000. But in the contract we provide, and other companies, I suppose the same way, that the excess premium that he has paid will be paid to the beneficiary with the face of the policy.

MR. KENT: Has that been done, do you say? A.—Yes, sir, we have done it several times.

Q.—That is one of the things we did not know about before? A.—There are many things in life insurance that you do not know about; that is, of the generous things.

MR. TILLEY: You are referring now to Dominion legislation on that subject? A.—Yes, there is also Provincial legislation.

Q.—In all the Provinces? A.—In all the Provinces which have a Life Insurance Act. Those are the Provinces of British Columbia, Manitoba, Ontario, Nova Scotia, New Brunswick and I am not sure about Prince Edward Island. There is an Act introduced this Session, but I do not know whether it has been passed.

Q.—Is the provision in all the Provincial Acts the same as the Dominion? A.—I think it is.

Q.—In respect of that item the Legislation seems to be uniform? A.—Yes.

Q.—And there was the attempt in Nova Scotia to alter that? A.—Not to alter that but after two years that the age given would be taken as the true age. But that provision that I have referred to in regard to the

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

adjustment of the age in case of error is in the Nova Scotia Act.

Q.—But if that other provision had been put in the Nova Scotia Act? A.—It would nullify the other, that is to say it would only apply for two years.

Q.—It would operate for two years and at the end of that you would not be able to get that adjustment of the policy? A.—Yes. I may say that the Legislature saw the unfairness of the provision and at its next Session eliminated it from the Act.

Q.—So that your effort in that regard was successful? A.—Yes.

Q.—There has not been much difficulty experienced by insurance companies with regard to the different Acts of the Provinces in that regard? A.—Yes.

Q.—They have been fairly uniform? A.—Yes.

Q.—Have you had any matters that have been legislated upon by the Provinces, so that the legislation has not been uniform throughout? A.—I don't think that any two Provinces have the same Life Insurance Act. They all differ in some respects and that is one thing which the Association would endeavour or would like very much to see brought about, a unification of the Provincial Life Insurance Acts.

Q.—Will you say in respect of what matters you think that is important to the companies and why? Give some examples of where the companies may be prejudiced in not having that uniform? A.—In the matter of beneficiaries, for example. In one Province the preferred beneficiaries will include more members of a family than the preferred class in another Province. In Ontario the preferred class includes the wife, the children and the mother, and I think the husband. In Manitoba there is some variation, but I don't know the exact variation. I think there is also a variation in the British Columbia Act. I think the Ontario Act also includes the grandchildren. It seems to me that it would be very desirable if there could be uniformity brought about in that respect.

Q.—Why does that affect your insurance company? A.—In this way, that preferred beneficiaries are given certain powers or rights which ordinary beneficiaries are not given. The assured can change, can vary the payment of the policy amongst the class, but he cannot remove the benefits of the policy from that class.

Q.—Then it renders it difficult for the company always to determine what should be done in a particular Province, by reason of this difference? A.—Yes. And again, questions have been raised, I think, as to what really governs, that is the law of the Province in which the policy has been issued or the law of the Province in which the policy is delivered and the assured lives. If the laws of the two Provinces were uniform there would be no difficulty in that connection.

Q.—You think the insurance companies experience possibly a danger by reason of not interpreting the law properly for the particular Province and may run the risk of loss? A.—Yes.

Q.—The result would be to save solicitors' fees in advising the company? A.—Yes, and to enable the company to act more expeditiously and also with greater certainty.

Q.—Besides this question of beneficiaries and the age is there any other legislation passed by provinces that should be uniform according to the opinion of the Association? A.—The Ontario Insurance Act deals with a great many questions as to the payment of a policy in the event of the beneficiary being, for example, under age. It states what may be done in such a case as that.

Q.—Who his guardian for the purpose of receiving the money shall be? A.—Yes, there are several provisions. The legislation of the other provinces does not correspond with that.

Q.—What about allowance of days of grace in paying the premium on the policy? A.—In one Province, I think, there is no provision, whatever.

Q.—What province is that? A.—I think it is British Columbia and in others or one other, 30 days is mentioned. In another one month is mentioned. There is some distinction there. It seems to me it would be better to have uniformity in connection with the days of grace. Then again as to what shall be regarded as material in the contract. I think the Ontario Insurance Act has defined that if a mis-statement is not material to the contract, that that contract cannot be disputed by the company. I don't think that that provision is inserted in all of the other Provincial legislation.

Q.—Then it is your idea and the idea of the other members of the Association that in such general matters

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

as these that you have mentioned, it would be advantageous to have uniform laws throughout the Dominion? A.—I do.

Q.—And to insure that it would be necessary not only to have Dominion legislation but to have uniform legislation by the Province? A.—Yes.

Q.—Has the Association been doing anything to bring that about? A.—The matter has been discussed in the Association on two or three occasions, but it has not taken any action. It was proposed amongst some of the members formerly that it would be desirable to secure a model Provincial Act. It was thought it might be sirable to start first with the Province of Ontario and to decide upon that Act and securing the approval of the Legislature to endeavour to get that Act adopted by the other Provinces throughout Canada.

Q.—I do not gather quite from what you say that it was an agitation, but just a general discussion. How long has that been going on? A.—I think about 2 years.

Q.—Have you any reference to it in the minutes? A.—I think there is a reference to it.

Q.—If you cannot find it probably you will give us your recollection as to it? A.—I think about 2 years ago a formal resolution was moved that an endeavour be made to bring about uniformity in Provincial legislation.

Q.—Has anything been done under that resolution? A.—There was a committee appointed but that committee has never taken any action. The members have been busy and engaged with other matters, and have not found time to take up that question.

Q.—Has there ever been any agitation or discussion of having uniform standard conditions for policies by legislation? A.—No.

Q.—Never any discussion of that at all? A.—No.

Q.—Are you required in any of the places you insure persons to have statutory standard conditions? A.—No.

Q.—And to show exceptional conditions in different colored ink or anything of that kind? A.—No, that relates only to fire insurance, I believe.

Q.—Then regarding the taxation of insurance companies in different provinces. I would like to ascertain what the views of the insurance managers are on that subject. I see that in a meeting on February 16th, 1895, the matter first came up. "Mr. Macdonald suggested certain legislation with regard to taxation which it was thought would be in the interest of the companies, and on request he agreed to have a Bill prepared to be submitted to a Special Meeting of the Association." Then at the next meeting on March 21st, 1895, a draft Bill was submitted. The Bill was intended to be passed in 58 Victoria, and its object was to amend Section 21, the section giving exemptions, by exempting the reserve fund and interest upon it at the rate of 4½ per cent. Do you remember the endeavour to get that Bill passed? A.—No, I was not in the Association at that time.

Q.—You don't know what was done about it? A.—No, nor what attitude was assumed by the Legislature towards it. It was not passed.

Q.—The effect would be to exempt in the hands of the insurance company the reserve fund and 4½ per cent. interest on it? A.—Yes, that being really the debt owing by the company to the policyholder.

Q.—And the amount that the company would have to add to that debt each year by way of interest to keep up the reserve? A.—Yes.

Q.—On November 31st, 1896, there was a Petition dealt with at that meeting regarding the licenses to agents. The report of the committee on the question of licensing agents was read and with some slight amendments was adopted together with draft Petition of Agents. Do you remember that Petition? A.—No, I do not.

Q.—It seems to have been prepared by the Chairman and the Secretary, Mr. Richter, and Mr. Sutherland, for these agents? A.—Yes.

Q.—Not prepared by the agents? A.—I would think not.

Q.—Do you remember whether there was any agitation amongst the agents at that time? A.—No, I cannot recall that. I was not active in the Association. I was not in the Association at all at that time.

Q.—The Act to be amended was the Act requiring the agents to take out a license to pay an annual fee af $2. That Act was repealed? A.—Yes.

Q.—Do you remember when it was repealed? A.—No.

Q.—Do you know whether this petition was ever presented? A.—I cannot say.

Q.—It seems to be admitted there that the object of the legislation was to prevent rebating? A.—Yes.

42nd day, June 14th, 1906.

Q.—And then this petition is drafted by the Life Managers' Association for agents to sign, asking to have the Act repealed? A.—Yes.

Q.—Do you know what view the Life Managers took of that, did they think the Act would not be successful in stopping rebating? A.—I think that was the view that as the Act as it was on the statute book was of no use whatever to stop rebating.

Q.—Were you interested in insurance at that time when the Act was passed? A.—Yes.

Q.—Who brought that Act into existence, the managers, or the Government on its own initiative? A.—I think it would be at the suggestion of the managers, but I could not say it was suggested in the form in which it was passed.

Q.—It might not have met with their approval just the way it was drawn? A.—No, I am inclined to think that they desired a much broader Act than the Act that was passed.

Q.—And not having got that broader Act they thought this inefficient? A.—It was inefficient.

Q.—Do you know that it was inefficient? A.—I do.

Q.—In what respect? A.—From my actual experience in insurance at that time, that is that rebates were quite common. I would not say as common as before, but they were quite frequent in respect of insurance under $5,000, and sometimes a man who desired to apply for $10,000 of insurance would apply in three policies in order to escape the effect of the Act.

(Adjourned to 2.15 p.m.)

AFTERNOON SESSION.

Resumed at 2 P.M., June 14th, 1906.

Examination of Mr. Bradshaw continued:

MR. TILLEY: I suppose you have not got any additional information about this petition since the adjournment this morning? A.—No.

Q.—The question regarding the Provincial Act? A.—No.

Q.—Then on March 7th, 1899, there is this minute: "The provisions of the bill now before the Parliament of Ontario were discussed at great length, the feeling being that many of its provisions were onerous and unjust, the one referring to the taxation of life companies being particularly so. It was felt that the Association should do all in its power to have the pro-

visions of the Act referring to Life Insurance so modified so as to make their meaning clear and to have the rate of taxation greatly reduced"—do you remember that bill? A.—No, I do not.

Q.—Do you remember what it proposed or whether it was enacted? A.—I do not.

Q.—On March 14th, 1900: "A special meting of the Association was held preliminary to the members of the Association waiting upon the Council of the Ontario Government for the purpose of endeavoring to secure a modification of, or relief from the taxes imposed upon the Companies by virtue of the Ontario Revenue Act."

Those present are set out. I see you are one of the persons.

"J. F. Junkin moved, seconded by Mr. Hilliard, 'That the deputation ask for total abolition from taxation, failing which the deputation should urge the reduction of the tax and the doing away entirely of the Municipal taxation.' (4) In amendment Mr. R. H. Matson moved, and Mr. A. Hoskins seconded: 'That the deputation urge the Government to reduce the rate of taxation to one-half of one per cent., and to abolish all Municipal taxation on personal property and license fees, and that Messrs. J. K. Macdonald (Confederation), A. Bruce (Canada), and J. G. Richter (London), present the view of the Association.'"

Upon a vote being taken the amendment was declared carried."

At that time you were the Assistant Secretary? A.—Yes.

Q.—Do you remember that deputation? A.—Yes, I remember that.

Q.—What was the point that was under consideration there, just what is stated here? A.—What is set forth there.

Q.—You first wanted to get free of taxation? A.—Yes.

Q.—And if not? A.—A reduction of the rate.

Q.—One-half of one per cent. in lieu of all taxes? A.—Yes, municipal and all taxes.

Q.—On what basis did the insurance companies consider they should be relieved from taxation? A.—In the first place they contend the premium paid by the policyholder is already taxed, that being part of his income; in the second place that the premium being paid for the benefit of insurance for defendants it is really upon thrift, and therefore that they should not be taxed at all.

42nd day, June 14th, 1906.

Q.—It is taxing a man paying into a company to accumulate for himself? A.—Not for himself chiefly, but for his widow and for his family.

Q.—You say for that reason you think the total premium paid should not be taxed? A.—The total premiums paid should not be taxed; that was the view held then.

Q.—That would give the shareholders of the company a considerable profit arising from their interest in the company without any taxation on it? A.—I may say that that point was considered, and the companies felt or the Association felt that the limit of taxation should be on the dividends to shareholders.

Q.—Was that proposed by that deputation? A.—I believe it was.

Q.—You were there? A.—It was some time ago since that deputation waited on the Government, but I think that view was presented.

Q.—Do you remember what was done at that time? A.—I understand that a smaller percentage was agreed to by the Government.

Q.—One-half of one per cent.? A.—No, it was one per cent., the tax proposed was a greater tax than one per cent., and one per cent. is the tax at the present time.

Q.—Has that tax remained? A.—Yes, to the present time.

Q.—That was the total premium income? A.—Yes, on the gross premium income of the company.

Q.—Has there been any consideration of the propriety of a tax on the increase in surplus of the Company? A.—There is also another view held by the Association, and with that view I have a great deal of sympathy, namely, that the tax should be placed upon the net earnings of the company, that is to say a tax on the increase in surplus plus surplus paid out during the year to shareholders and policyholders.

Q.—That would be a middle course between the two you indicated before? A.—Yes.

Q.—Not only tax on what is paid out to shareholders, but in add to that put a tax on the increase in surplus which has been accumulated? A.—Yes, it is the amount a company returns to policyholders, or the excess amount which he pays for his insurance.

Q.—I suppose the tax that is paid now by the company, being one per cent. on the gross premium income, that that is paid out of the ordinary income of the company? A.—Yes.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

Q.—It is not paid by the shareholders out of their funds exclusively? A.—No, but they bear part of the tax.

Q.—Their proportion falls on the shareholders? A.—Yes.

Q.—And the major portion of it by far, I suppose— A.—On the policyholders.

Q.—In some companies shareholders get the full dividend that they can in any way become entitled to under the Act of Incorporation, I think that is so; some of them are limited to a dividend of a certain percentage or in some way they are restricted as to the amount the shareholders can take out of the company? A.—Yes.

Q.—Of course as to those shareholders who are limited that way they would not pay taxes at all? A.—It will affect them, because any tax at all will affect the earnings of the company.

Q.—If they take their full dividend they cannot increase it? A.—The dividend is always in life companies a proportion of the net surplus, and if a company is taxed then its net surplus must be increased, and therefore the shareholders must suffer as well as the policyholders.

Q.—There would be some slight amount there affecting them probably? A—Yes.

Q.—I see on June 28th, 1900—

JUDGE MACTAVISH: Does the witness say a tax of that kind would affect the policyholders?

MR TILLEY: Affect the shareholders a little? A.—Affect the policyholders as well as the shareholders.

JUDGE MACTAVISH: Tell me how it would affect the policyholders? A.—If there were no tax then the amount to be distributed or returned to policyholders in surplus would be greater; the amount returned to policyholders is just less the amount of the tax; that is paid out of the surplus of the company.

Q.—A shareholder who is in receipt of a dividend of $500 a year, and the municipal assessor assesses 2 per cent. on that, reducing that by $10, how could the policyholders be affected by that tax?

MR. TILLEY: Your Honor is thinking of the policyholders and shareholders paying taxes, but Mr. Bradshaw is speaking of the taxes the company pays. The company pays direct from its own funds. The tax is one per cent. on the gross premium in-

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

come of the company, and the company pays that, making so much less surplus to be divided as between policyholders and shareholders. It is not a tax on the shareholders it is not a personal tax.

JUDGE MacTAVISH: Then the policyholder will be interested to that extent? A.—Yes.

MR. KENT: As a matter of fact I expect the shareholder of the present day does not pay anything at all, because his portion of the proceeds is put into a pool; he draws so much per annum as a dividend, the rest is held in reserve, so as long as he gets the stipulated dividend he may be considered as not paying any portion of that tax at all. Of course his share of the pool is diminished so much; but that won't be distributed in his life time; I think he can sleep quiet, it won't affect him either one way or the other.

MR. TILLEY: It will have an effect when he is sleeping very quietly?

MR. KENT: It will have an effect when the company is wound up.

WITNESS: A life insurance company is never wound up, it is a perpetual institution.

MR. TILLEY: Q.—That is a fact, that a life insurance company is never wound up, almost a fact? A.—It is supposed to be a perpetual institution.

Q.—A life insurance company does not go out of business? and will not be out of business? A.—No, if it desires to retire it re-insures his risks.

Q.—All its policies? A.—Yes.

Q.—If a life insurance has just the net re-insurance reserve how does it pay the premium for re-insurance? A.—With the re-insurance reserve, that is why the reserve is there.

Q.—So long as it has the reserve any other company is glad to take the policy with the reserve that is carried for it if the reserve is there? A.—Yes.

MR. GEARY: And without any commission? A.—That depends upon the arrangement made between the companies, but one of the reasons of the reserve is that it is sufficient to reassure the outstanding risks in another company.

Q.—Without paying any commission? A.—In itself.

Q.—If it had to pay commission? A.—It would not necessarily follow it would pay commission.

Q.—If it had to they would have to have another fund for that? A.—Yes, if it had to, but it is a matter of arrangement between the office reinsured.

MR. TILLEY: That is a matter of the deal? A.—Yes.

Q.—That is what you were speaking about the other day, as to the advantage of having the net re-insurance reserve right from the commencement of the company? A.—Yes.

Q.—I think you said if anything happened the company could not survive the early period it had a fund within itself with which it could reinsure all its risks with another company, and thereby save the policyholders from loss? A.—Yes.

Q.—June 8th, 1900 (reads from minute): "Mr. J. K. Macdonald stated that the object of the meeting was to consider the advisability of securing a legal opinion as to the constitutionality of the Ontario Revenue Act so far as it relates to the imposition of a tax upon life insurance premiums; and in this connection the opinion of Messrs Atwater & Duclos, of Montreal, was read, which had been obtained by Messrs. Ramsay (Standard) and B. Hall Brown (London & Lancashire) and which has been kindly forwarded by these gentlemen."

"(4) Mr. Dexter moved, and Mr. J. F. Junkin seconded, 'That the Association secure a legal opinion (1) as to the right of the Province of Ontario to impose a tax upon insurance premiums, and (2) in respect to the power of the municipalities under the present Assessment Act to tax life insurance companies. Carried.'"

"(5) Mr. T. Hilliard, and Mr. D. Dexter seconded 'That such opinion be obtained from Mr. Christopher Robinson, Q.C. Carried.'"

"(6) It was agreed to ask Mr. Alexander Bruce, Q.C., solicitor of the Canada Life, to prepare the case for submission to Mr Robinson; and the President and Secretaries were appointed a Committee to meet and confer with Mr. Bruce in connection with the preparation of the case." That was done I think? A.—Yes.

Q.—And July 6th: "The President reported that Mr. Christopher Robinson's formal opinion as to the intra or ultra vires of the Ontario Revenue Act had not yet been received, but he had verbally heard from Mr. Robinson that his opinion was that the Act was intra vires of the Province of Ontario. (Since the date of this meeting Mr. Robinson's written opinion has been received, which confirms the statement made by the Presi-

42nd day, June 14th, 1906.

dent).'' Then follows reference to the taxation in Manitoba: ''The President also reported that the efforts of the Association in endeavouring to secure a reduction in the rate proposed to be levied by the Government of the Province of Manitoba has been successful, the rate of taxation proposed of 1½ per cent. having been reduced to one per cent. of the premium income;'' so that in Manitoba the same result was obtained as in Ontario? A.—Yes.

Q.—Then you have given me a memo., Mr. Bradshaw, showing the taxation of the companies in the different Provinces of the Dominion? A. —Yes.

Q.—It is headed, ''Memorandum *re* Taxes & Licenses?'' A.—That was made in respect of the company with which I am connected.

Q.—Dominion of Canada: ''An annual assessment made on the basis of the proportion of this company's income to the total premium of all companies for the maintenance of the Insurance Department (the departmental year ending 31st March). The amount of the levy is to be deposited in some bank to the credit of the Receiver-General on account of 'Insurance Superintendence' and the duplicate and triplicate receipts forwarded to the Superintendent of Insurance at Ottawa.

Our levy for 1904 amounted to $226.13 and for 1905 to $261.18 in connection with this tax''—is that the tax you pay to the Dominion or to the Insurance Department? A.—Yes, it is in proportion to the premium income of the company.

Q.—That is under the Dominion Insurance Act. Then Province of Prince Edward Island: The tax there seems to be an annual license fee of $225? A.—Yes.

Q.—Each company has to pay that each year; Charlottetown, an annual tax of $50 payable June 1st, that is for the city itself? A.—Yes.

Q.—Town of Summerside, an annual tax of $10, payable June 1st. The Province of Nova Scotia, annual license fee of $25? A.—In Nova Scotia since that list was made up I understand a much higher tax has been imposed; I think it is now $250.

Q.—The City of Halifax; an annual tax of $98 payable August 1st; the town of Sydney an annual tax of $20; the Province of New Brunswick, an annual license fee of $250; do these annual license fees depend on the amount of your premium income? A.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

—Not the license fee, it is the same amount for all companies.

Q.—The City of St. John, an annual tax of $95, payable October 1st; the City of Fredericton, an annual tax levied by assessment on premium income—do you know about what tax that is? A.—It is on the premium income.

Q.—Do you know what rate? A. —No, it will be the regular rate of the municipality.

Q.—Whatever rate is levied? A. —Yes.

Q.—Do you there have to pay on the full premium income or the premium income received in that municipality? A.—Yes.

Q.—The total premium receipts there? A.—Yes.

Q.—Province of Quebec: an annual tax of one per cent. on gross receipts of company in the Province? A.—Yes. Since that list was made out the Province of Quebec has taken upon itself to tax the life companies on a higher rate than any other Province in the Dominion of Canada. It has the distinction of taxing the companies to the extent of 1 3/4 per cent. on the premium income, a rate which the Association deems to be altogether excessive.

Q.—Mr. LeBeuf wants to know what is the highest you pay in the States? A.—I cannot say what the rate is in the States, but it varies I know from one per cent. to two per cent.; it may be even three per cent., but even that I take it is no reason why such an enlightened Province as the Province of Quebec should impose a tax upon thrift.

Q.—That would be on the premium income? A.—Yes.

Q.—The City of Quebec: a personal tax or license fee of $200 per annum besides a business tax which amounted in 1904 and 1905 to $18.75. Taxes are payable on or before November 1st for civic year ending the following 30th April.

City of Montreal, a tax levied by annual assessment including Water Rates, Business Tax and Special Insurance Tax. That would vary each year? A.—That would vary each year.

Q.—According to the rate they levy? A.—Yes.

Q.—The City of Sherbrooke: An annual tax of $50 payable on June 1st,

Province of Ontario: An annual license fee of $150, and an annual tax of 1 per cent. on the premium income

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

of the company in the Province? A.—There appears to be a good deal of inconsistency in that; it is hard to know the reason why in addition to a tax of one per cent. on the premium income a fee of $150 should also be exacted from the companies.

Q.—The tax of course would become applicable to a company that has some business to tax, and has some premium income established there, and the fee of $150 would have to be paid I suppose by a company which is opening up an office? A.—It would apply to all offices, whether it has business or not.

Q.—The $150 would have to be paid whether there is any business or not? A.—Yes.

Q.—And the one per cent. is in addition? A.—Yes.

Q.—The City of Toronto: A business tax levied by annual assessment—that would be on the premium income? A.—No, that is on the interest income arising from the investments of the company in the City of Toronto.

Q.—The City of Hamilton: A business tax levied by annual assessment in the same way? A.—That would be in the shape of a business tax, the usual business tax called for by the Act.

Q.—That is under the New Act? A.—Yes. I think in the City of Toronto also now it is a Business Tax on the premises we occupy.

Q.—The Province of Manitoba: An annual tax of one per cent. on the gross receipts of the company in the Province? A.—Yes.

Q.—What do you mean by receipts there? A.—Premiums.

Q.—"We pay taxes on property in the Province on which we hold mortgages, but these are collected from the mortgagors along with interest on interest due dates?" A.—Yes, that has really nothing to do with the company's business.

Q.—You do not pay taxes on the income from your mortgages? A.—No, just the premium income.

Q.—The City of Winnipeg: "A business tax levied by annual assessment, being 10 per cent. of our rental, subject to a discount of 1 per cent. if paid on or before the 16th December."

Q.—"North West Territories, an annual license fee of $5 A.—I suppose when the Province finds out what the other Provinces are doing they will increase that.

Q.—That may be one result flowing from the Commission? A.—We hope they may probably point out to this Province that they may set up a good example to the other Provinces.

Q.—Saskatchewan, so far no levy has been made; Alberta, so far no levy has been made.

The City of Calgary: An annual tax of $25.

City of Edmonton, an annual tax of $25.

The Province of British Columbia: An initial license fee of $250. An annual tax of 1 per cent. on gross receipts of the company in the Province. (10 per cent. discount if paid on or before June 30th). Returns as at close of the company's last financial year required to be rendered September 1st. City of Victoria: The Municipal Act calls for an annual tax of $100, but during the past two years we have been asked to pay only $20.

Newfoundland: City of St. John: An annual tax of $100 payable on or before January 31st.

British West Indies: Island of Barbadoes: An annual tax is levied by assessment (the Act calls for the levy to be on profits for the year)? A.—That would be the net profits.

Q.—Island of Jamaica: An annual tax of $25. "There is also a stamp duty on all policies, notes, receipts, etc." Have you attached to that a statement of the taxes that your company paid during 1905? A.—Yes.

Q.—And the total taxes apparently paid by the company amounted to $7,226.26? A.—Yes, and in that connection I would like to say that an estimate of the taxes to be paid by the life offices this year in Canada, the figures would be about $270,000.

Q.—That is by the Canadian Companies? A.—By all the companies in Canada, that is in respect of Canadian business.

Q.—Do you mean foreign companies in respect of their Canadian business? A.—Yes, American and British and Canadian Companies in respect of Canadian Life Insurance, or equivalent to 1¼ per cent. of the gross premium income, and that forms a direct tax on the policyholder to that extent.

JUDGE MACTAVISH: Do the policyholders of each Province receive the benefit of the lower rate of taxation? A.—No.

MR. TILLEY: Q.—All the taxes that are paid, are paid out of the general funds of the Association? A.—Yes.

42nd day, June 14th, 1906.

Q.—And then the profits are divided, not according to the district where the policyholders live— A.—No, that could not be done. In some cases there would be very few policyholders and not sufficient to form an average.

Q.—There is no benefit to a policyholder residing in a Province where the taxes are small? A.—No.

Q.—Even the man from Saskatchewan does not get any benefit by making no tax on you? A.—No.

Q.—Has not the idea you were speaking of of companies being organized for thrift vanished considerably in the last few years, so that a little taxation would be proper by reason of the new policies, the investment policies you now issue? A.—I think life insurance as conducted to-day is conducted as it was originally chiefly for the benefit of the widow and children, but that the amount that is paid to shareholders is a very small fraction of the net earnings of the company, that in most companies at least 90 to 95 per cent. of the net surplus accrues to the policyholder, and therefore that must be taken as the measure of the interest of the policyholder, and the balance is the interest of the shareholder. The shareholder's interest being very small it will be seen at once that the greater part of the business is being performed chiefly for the benefit of policyholders and their dependents. In regard to investment policies mentioned, those will be policies on the endowment principle, and the same view prevails in respect to them. An endowment policy has for its object the providing of means for a person who attains an age when he is unable to provide an income for his sustenance and for the sustenance of his family. Therefore I think that life insurance as conducted to-day has in it the essential elements of the elements that existed when life insurance was founded many years ago.

Q.—And for that reason the same rule would apply, and you should have a little lighter taxation? A.—Yes.

Q.—I suppose that a life insurance company cannot hide its assessable property in the way of premium income? A.—No, it has to make a full disclosure of its income.

Q.—Do you think any allowance should be made for a life insurance company because it has to show up its assessable property as compared with the private individual probably who can get a little the best of the assessor? A.—I have not thought of it in that connection.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

Q.—All Companies have to make an open disclosure now? A.—Yes.

Q.—Is not that probably what has prompted the life insurance officers in the past to claim that taxation bears hardly on them in comparison with others because all their assessable property is open and exposed? A.—I do not think that view has occurred to the companies.

Q.—Has it ever been an argument that because they are limited in their investments and are somewhat in the nature of trustees that their investments are not so remunerative as they would be if they were of a proper class—has that been urged? A.—In connection with assessment?

Q.—Yes? A.—Not that I have heard. I may say that the basis of assessment which the Association deems to be a fair basis is the following: It was suggested by a Committee that was asked to proceed to British Columbia some few years ago at the time that legislation was being put through there. The Committee was Mr. Brock of the Great West Life, Colonel Macdonald and myself, and the suggestion was that the tax should simply be upon the net income of the year, that is the amount of surplus actually earned by the company and not upon the premium income; the net surplus being the result of the year's transactions and being the amount of surplus moneys that have resulted from the operations of the company, and would be the amount that would be returned to the policyholder as the unearned portion of his premium.

Q.—That is the net profit on the year's business? A.—Yes.

Q.—And you should not regard merely the receipts of the year's business, but you should take the profits? A.—Yes, because about two-thirds of the receipts of the year comprise the reserve necessary to be put up for the solvency of the company and to meet the contracts.

Q.—The net surplus would eliminate the reserve? A.—Yes.

Q.—Why should the reserve be eliminated? A.—Because that is in the nature of a sinking fund put up to meet the contract when it matures, just the same as you would put aside a sinking fund to meet a debenture when it was maturing some years hence.

Q.—It is put on the basis sometimes that that is a liability of the company? A.—It is a liability of the company.

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

Q.—But the only principle upon which the liability of a company is exempt from assessment is that the asset that that liability represents is assessable in the hands of some person else? A.—That would be the case, because the premiums which have built up that liability, or which have built up the assets have first been assessed in the hands of the policyholder.

Q.—That may be so, but there is no assessment on the policy as an asset of the policyholder? A.—No, and the investment which the company makes with these premiums are assessable; for example the company invests this money in mortgages, the mortgagor has to pay the assessment on his property, and therefore the asset which the company holds has been assessed.

Q.—Then you are the mortgagee? A.—Yes.

Q.—You would not assess the mortgagee? A.—No, not in that way.

Q.—Not in what way? A.—In the way in which that mortgage is held for the meeting—

Q.—That brings you back, because the mortgage represents part of the reserve? A.—Yes.

Q.—But that reserve is not a liability that is assessed during that year in the hands of the person to whom it is going? A.—No.

Q.—The policyholder escapes assessment on it? A.—He only escapes assessment on it by having paid assessment previously on the premiums which have gone to build up that reserve.

Q.—You would not tax the full premium; if you tax the full premium then the reserve has been taxed, if you do not tax the full premium— A.—I mean in his hands the premium before it arrives in the company's coffers—

Q.—That is he paid tax on the income on the moneys he received in his day? A.—Yes, and therefore it appears that double taxation is in process.

Q.—Do any States so far as you are aware tax reserves directly? A.—I do not know.

Q.—You are not conversant with that, I understand you do not do business in any of the United States? A.—No.

Q.—Do you approve of the payment of the fees towards the Insurance Department, the expense of the Insurance Department? A.—The maintenance of the Insurance Department?

Q.—Yes? A.—Personally I do, the matter has never been discussed in the Association, I can see no objection.

Q.—There has never been anything arise which has brought that subject up for discussion at all? A.—No, I think it has appealed to all the companies as being a fair tax upon them.

Q.—And it seems to work out equitably? A.—Yes; there has been no discussion in respect of it at all events.

Q.—What was your view as to the propriety of ceasing to license agents—the Act was abolished? A.—Yes. The view of the Association is stated in that memorandum.

Q.—Does that carry your judgment? A.—Yes.

Q.—Have you ever heard of a tax levied on the policyholder in respect of the surrender value of the policy? A.—Not in this country, nor have I heard of it in any other country.

Q.—Then has your Association taken any other action with regard to assessment and tax legislation than what you have indicated to us? A.—No, all the transactions are recorded in the minute books and no other action has been taken. There is still a feeling in the Association that the tax of the Province of Ontario is an unduly heavy tax, and the tax in the other Provinces are also unduly heavy.

Q.—Some of them? A.—Yes, and that it simply means that the cost of insurance to the policyholder is increased.

Q.—Then the officers of the Association have from time to time endeavored to come to some understanding or agreement regarding certain matters relating to insurance? A.—Yes.

Q.—So that companies would act on a uniform basis? A.—Yes.

Q.—And have uniform commissions and uniform rules? A.—Yes.

Q.—In the first place you have made an effort, have you, to have uniform commissions to agents? A.—There was a suggestion made of that character.

Q.—Is this a memorandum that was prepared by the Canadian Life Insurance Officers' Association regarding that British Columbia assessment you were speaking of? A.—Yes. (Memorandum referred to *re* British Columbia Assessment marked as Exhibit 236.) It sets out the resolution passed at a special meeting of the Association held on April 1st, 1901, appointing the undersigned a deputation to proceed to Victoria, British Columbia (reads down to the word "Province.") Then. "We had to report as follows—

42nd day, June 14th, 1906.

'The Committee consisted of J. H. Brock, W. C. Macdonald, and T. Bradshaw?''' A.—Yes.

Q.—And this report was made May 20th, 1901? A.—Yes.

Q.—"Under the British Columbia Act 1897, chapter 179, as amended, a tax is levied upon income" (reads report down to the words "Agencies therein?") A.—Just there let me say—

Q.—You wish to speak in connection with the licensing of companies to do business in particular municipalities referred to there? A.—Yes, I would like to say there that the companies are of opinion that if taxed by the Province they should be free from municipal taxation?

Q.—That is if there were uniform Government tax that each municipal Act should contain a provision that no municipality could tax a company? A.—Yes.

Q.—It would not be subject to the local Municipal Assessment? A.—Yes.

Q.—Would not that be rather unfair to the local municipality? A.—Taxation in municipalities is not general, and it is unfair to those policyholders at the present time in the municipality where no taxation is made. The municipality that taxes policyholders is placing a burden upon the policyholders in other municipalities where no taxation is imposed, and in order that there may be no inequality in that connection—

Q.—The most of the policyholders now I suppose are participating policyholders? A.—Yes.

Q.—And they take a policy of a participating class in the company, and I suppose it cannot be said to be unfair that they should bear their share of the taxation that is properly put on that company, even by a local municipality, could they, where their company is carrying on its business? A.—At the head office.

Q.—Or even in a branch office if it is a regularly established office? A.—There is a double tax there, first the Province taxes the premium income, and then the municipality taxes the premium income, and that means a very severe tax; if the Province imposes a tax of $1\frac{3}{4}$ per cent. or $1\frac{1}{2}$ per cent., and then the municipality another $1\frac{1}{2}$ per cent., there is three per cent. on the premium income. It is double taxation.

Q.—You say "One of the main reasons why objection was taken to that clause" (Continues reading from

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

exhibit 236 down to the words "which yields returns").For that reason you thought it was advisable not to insert an interpretation clause in that section? A.—Yes.

Q.—You thought you would rely on the common law? A.—Yes.

Q.—Then the statement is given of surplus, how it would work out in that way, and the ratios which you have already mentioned are there set out? A.—Yes.

Q.—And the letter to Mr. Turner is as follows (Reads letter which is part of Exhibit 236) What do you say was the result of that attempt on your part? A.—The suggestion made by us was accepted by the British Columbia Legislature.

Q.—Does that remain still? A.—Some one or two years later they departed from the faith and assessed the companies, brought in a new Act, and the companies are now assessed on their gross premium incomes at the rate of one per cent.

Q.—The same as Ontario? A.—Yes.

Q.—As to this question of uniform rates and commissions, on November 20th, 1897, I see there is a minute as follows: "The question of raising the premium rates, making them uniform and adopting a uniform basis of commission was considered for a time, when Mr. Macdonald consented to lead in a discussion of the subject at the next meeting." That seems to be the first minute that refers to that subject. At the next meeting Mr. Macdonald did lead in a discussion of the subject. The next meeting, on the 18th February, 1898, there is this memorandum: "Mr. Macdonald then read a valuable paper on uniform rates of premium and uniform rates of commission. After a somewhat lengthy discussion of the important features of Mr. Macdonald's paper the secretary was instructed to furnish a copy to each member of the Association at an early date to facilitate a full discussion of the same at the next meeting, and Mr. Sutherland agreed to open the discussion." Then on May 21st, 1898, there is the minute: "Mr. Sutherland briefly introduced the discussion on Mr. Macdonald's paper on uniform rates of premium and uniform commission, in which all the members took an active part. It was felt that uniform rates and commissions would do much to suppress existing abuses."

"At the close of the discussion it was moved by Mr. McDougall, sec-

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

onded by Mr. Hilliard, and resolved, "That in the opinion of this meeting it was desired that minimum rates of premiums should be formed, based on the Hm. 3½ per cent. table with suitable loading, and that the question be referred to the following Committee with instructions to bring up specimen rates at the Autumn meeting of the Association: namely: Messrs. Ramsay, McCabe, McDougall, Brown, Macdonald, and the Secretary be a member and convener of the Committee." That is as to uniform rates. Then the next resolution is: "It was next moved by Mr. Junkin, seconded by Mr. Marshall, 'That in the opinion of this Association the most effective method of diminishing the objectionable practice of rebating is by reducing the present high rates of commissions. Be it therefore resolved that the following Committee be appointed to recommend a maximum schedule of commissions applicable to the various forms of policies, with an agreement to be submitted to the members of the Association at its next meeting for their approval and signatures, namely, Messrs. Ramsay, McDougall, Brown, Macdonald, Sutherland, Dexter, Junkin, Cox, and Marshall; the Secretary to be convener. Carried.'" Do you know whether Mr. Macdonald's paper on uniform commissions and uniform rates has been preserved? A.—I think it was published in the Insurance & Finance Chronicle of Montreal. I did not know it would come up and I have not brought a copy with me, but I think I can get a copy of that.

Q.—There is this reference to it: "Attention was called to the fact that Mr. Macdonald's paper read at the last meeting of the Association, and now about to be discussed, has been publihed by the Insurance & Finance Chronicle"—where is that published? A.—In Montreal.

Q.—And "reference was made to the fact that from time to time statements had been published by various papers purporting to be reports of the meetings of the Association, but always containing statements at variance with the facts." "The Secretary was instructed to intimate to all members of the Association that whether important or otherwise all transactions of the Association are supposed to be strictly confidential to its members"—it was published at that time? A.—I think so.

Q.—The Secretary on September 17th, 1898, read the report of the Committee appointed last meeting to consider the uniform basis of premium rates. Moved by Mr. Macdonald, seconded by Mr. Junkin and carried: "That the report be received and the further consideration of the question be deferred till next meeting."

"Then the President reported progress for the Committee on uniform rates of commissions, and asked Mr. Macdonald to state his proposition, to which all the members of the Committee agreed. Mr. Macdonald proposed that a meeting of managers and directors be held at an early date for the consideration of means to reduce the present excessive cost of securing new business. The Secretary was instructed to ascertain the opinion of the various companies with regard to such action, and if favorable to convene the following Committee to arrange for a meeting to be held at an early date: J. K. Macdonald, William McCabe, H. Sutherland, J. F. Junkin, T. Bradshaw, and D. Dexter." On December 19th, 1898, "The Secretary reported he had received a general response to his circular letter asking for an expression of opinion with regard to the desirability of holding a joint meeting of managers and directors of the various companies, but that he had been unable to get a meeting of the Committee appointed to arrange for the proposed Convention owing to the absence from the Province of most of the gentlemen on the Committee. The wisdom of holding such a meeting until the managers themselves have agreed upon some plan for uniform action was questioned, and the matter was discussed for a considerable time when it was moved by Mr. Brown, seconded by Mr. Junkin, that the President and Messrs Macdonald, McCabe, Wegenast and the mover and Secretary be a Committee to report a scheme for uniform commissions at the next meeting of the Association, and that the Secretary be convener. Carried."

That Committee having been appointed a new Committee was appointed September 6th or September 16th, 1898: "It was moved by Mr. McCabe, seconded by Mr. Hilliard, That Messrs. Macdonald, Junkin, Sutherland, Bradshaw, Dexter, W. M. Ramsay and a representative of the Canada Life be a Committee to report on a basis for uniform commisions. Carried."

"On December 7th Mr. Bradshaw also reported progress for Committee on uniform commissions, suggesting a schedule of commissions for considera-

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

tion. This report was also received and the Committee continued to report at the next meeting of the Association. Then on February 24th, 1900, the regular quarterly meeting of the Association was held? A.—If I may be permitted, I think in the minutes of December 7th, 1899, there is a minute in addition to what you read

Q.—Yes: "After some discussion as to whether there was a probability of getting companies not members of the Association to adopt a uniform basis of commissions, it was moved by Mr. Macdonald, seconded by Mr. McCabe, and carried, that the Committee on uniform commissions be asked to ascertain if that be possible, whether the Sun Life, the Mutual Life, the New York Life, and the Equitable Life will co-operate with the Canadian and British Companies so far as the Canadian business is concerned in the event of a satisfactory scheme of uniform commissions being reached," The matter was left in that shape till February 24th, 1900, "The report of the Committee on uniform commissions, appended hereto was read by Mr. J. F. Junkin who moved, seconded by Mr. W. M. Ramsay that the report be received and a copy placed in the hands of each member in order that action may be taken thereon at the next meeting, carried?" A.—Yes.

Q.—Then there was a preliminary Report of the Committee in reserves, and then the report of the Special Committee on Uniform Commissions to the Life Managers' Association is set out in full, and it reads in this way:

"Owing to the various methods of remunerating agents, in use by the different Companies, your Committee has had some difficulty in arriving at any scale of commissions that might be accepted by all as a maximum rate to be paid for the securing and carrying on of the business.

"Many indications seem to point to one fact as a certainty, that is, that on all sides too much is now being paid for new business. Not only is this the case, but a great deal of the business, even after it is secured at such a high cost, proves to be of a very transient nature, thus resulting in serious loss to the Companies.

"Your Committee is of the opinion that the interests of the Companies would be greatly promoted in every way by making a considerable reduction in the Commissions on the first year premiums, and an increase in the commissions on the first year's renewals. The almost certain effects of this method of remuneration would be:

(1) A reduction in the total cost to the Companies, without any decrease in the agent's remuneration.

(2) Better and more permanent business.

(3) A lessening, if not an almost complete abolition, of the rebating evil.

The schedule of commissions attached hereto and recommended by your Committee for the consideration of the Managers, it is to be understood, is for the maximum commissions to General Agents where they are paying all expenses of whatsoever nature (medical fees and taxes excepted) such as office, rent, travelling expenses, postage, exchange, etc. Wherever allowances of this kind are made to the agent by the Company, the commissions should be correspondingly reduced.

It is recommended that a copy of this schedule be sent to each Manager and that he be invited to correspond with the Secretary of the Association not later than April 10th, offering such suggestions and amendments as he may deem necessary or advisable for the working out of a scheme of uniform maximum remuneration that might be adopted by all Companies that are members of the Association, and if possible, by all Companies operating in Canada.

"After receiving such suggestions, your Committee, if continued, would be willing to further consider the matter and report to the Association in time to have their report printed and circulated before the next meeting."

Q.—Then the rate of commission are set out on the next page, and the rates seem to be a great deal less than the rates being paid now? A.—Yes, very materially less on the first year.

Q.—And the whole principle is different just in that way, that you have comparatively a very low rate, a very low commission on the first year, and then on the subsequent years for a few years you give better remuneration than has been paid? A.—Yes, and the fifth and subsequent years the commission is reduced to five per cent.

Q.—Life, thirty and twenty-five annual payments, the first year commission would be thirty-five per cent.,

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

second year twenty per cent., third year fifteen per cent., fourth year 7½ per cent., and the fifth year and subsequent years 5 per cent.; so that five per cent. would be payable continuously throughout the policy? A. —Yes.

Q.—To the agent or his representatives? A.—No, to the Agent so long as he is an Agent of the Company.

Q.—And when he ceased to be agent of the Company then he would cease to receive the commissions? A.—Yes.

Q.—In that connection, is it the fact that although the Agent's contract is drawn so that he ceases to have any interest in renewal commissions, when he ceases to be an agent of the company, yet that he is treated to some extent by the Company when he leaves them in possibly rather a generous fashion by reason of the fact that he is losing his renewal commissions? A.—I understand that to be the exception; I personally know of no case in which that applies. In my own experience of some twenty-five years in the business, I have never known of such a case in either the Company I have been with or the Company I am with now.

Q.—You know of no case where an agent, when he was ceasing to be with the Company, was given anything for losing the renewal commissions? A.—No.

Q.—The contract is treated as a contract between the Agents and the Company? A.—So long as he is in the employ of the Company, and when he ceases employment with the Company he ceases receiving remuneration from the Company.

Q.—Without going through all the plans of insurance, I just want to run through some of the Commissions; 35 per cent. is the highest commission that is paid any year to any agent for any class of insurance? A.—Yes.

Q.—Life 20 annual payments, first year 30; 15 annual payments, first year 25 per cent.; 10 annual payments, first year 20 per cent.? A. —Yes.

Q.—35 or more annual payments, endowment policy, 35 per cent.? A. —Yes.

Q.—30 annual payments, first year 30 per cent.; 25 annual payments, first year 25 per cent.; 20 annual payments, first year 20 per cent.; 15 annual payments, first year 15 per cent.; 10 annual payments, first year 10 per cent., that is where it is an endowment policy payable in ten years? A.—Yes.

Q.—Second year premium, 20 per cent. is the highest rate, 20, 20, 15 and 10, and it runs down to 7½ for a ten year endowment? A.—Yes.

Q.—The third year the highest per cent. is 15 per cent., and it runs down to 5 per cent. for 10 year endowment; the fourth year the highest is 7½ per cent., and it runs down to 5 per cent.? A.—Yes.

Q.—The fifth year and subsequent years on all plans of insurance it is a uniform 5 per cent. and continues thus so long as the agent remains with the Company? A.—Yes.

Q.—What action was taken on that report—I see it says "'A copy placed in the hands of each member in order that action may be taken thereon at next meeting"? A.—Yes.

MR. LANGMUIR: Q.—Has there ever been any effort made to secure greater persistency by the payment of a progressive commission, that is not paying the commission all in one year, but if it persists for say three years———? A.—There was an attempt made at the time these commissions were suggested under this scheme, the first year the commission instead of being a high commission of 50 or 60 per cent. was placed at 35 per cent., then the second year 20 per cent., and the third year 15 per cent., and that fits in to the suggestion you have referred to. That was one of the objects of spreading it over, to secure the persistency of the business.

MR. TILLEY: Q.—To do away with the heavy cost in the first year: that was somewhat in line too with the ideas you advanced the other day, that the commission should not be paid all out of the first premiums, but as it was a payment made to the agent for payments received by the company by way of loading, spread over a long time, that it should be spread, probably not spread so long, but considerable spread over those premiums and taken out of the loadings by stages instead of all at one time? A.—Yes, I think that this system is one of the best systems that has been suggested in connection with the remuneration of agents, and also to secure the continuance of the business and to do away with rebating.

JUDGE MACTAVISH: Q.—It has not been universally adopted? A.—It has not been adopted at all.

42nd day, June 14th, 1906.

MR. TILLEY: Has not the trend of affairs been the other way? A.—Yes.

Q.—That companies in order to meet this competition for new business, have been loading their payments to the agent on the first year? A.—Yes.

Q.—Is that what you call brokerage? A.—Pretty close to brokerage.

Q.—What is the difference? A.—Brokerage is a commission paid on the first year's premium and no subsequent commission payable. The reasons why this was not put into effect were these; there was a great diversity of opinion amongst the members as to the manner of remunerating agents. Some members contended that the only way to remunerating agents. Some members by commission; then again the American companies contended for a high rate of commission the first year, and no renewals or small renewals in subsequent years, and it was found that there was such a diversity of opinion among the members that it was impossible to put into effect a general scheme of that character. Another reason was that some companies claimed that they could not very well break existing contracts with their agents. They had agreed with them under certain——

Q.—On some other basis? A.—Yes.

Q.—And it would be hard to make their Agreements all fall in at one time? A.—Yes, and some agents had contracts extending over a considerable number of years; some of them had a renewal interest at a different rate than that suggested in this report.

Q.—What do you mean by contracts extending over a number of years, is it usual for a company to assure to an agent renewals for a definite period whether he leaves the company or not? A.—No, it is not usual; I think it is done in some instances, but it is not usual.

Q.—And in any case I suppose there would be more or less companies that had agents where they could not terminate the contracts just at a month's notice? A.—Yes.

Q.—And that was a reason against it? A.—Yes.

Q.—Has there been any public feeling, any feeling on the part of the insuring public against agents receiving commissions on their premiums throughout the whole life of the policy? A.—No, not to my knowledge.

Q.—Do you know whether that is a fact, that the insuring public some of them, feel that it is quite a hardship that something out of their premiums throughout their life should go to your agent because he happens to write it up? A.—No, I have heard of the feeling, but I don't think it is general.

Q.—It is not a factor at all? A. No.

Q.—Then July 6th, I see the meeting was at Niagara-on-the-Lake, so that this only records part of what was done there? A.—Everything of a formal character was put in.

Q.—Paragraph 7 of that Special Meeting: "The President announced that Mr. J. F. Junkin, who had undertaken to prepare a paper on the subject of "Uniform Commissions" was unavoidably detained from being present. Mr. W. C. Macdonald was asked to read Mr. Junkin's paper, which he did. (A copy of Mr. Junkin's paper, as read by Mr. Macdonald, is appended hereto). The paper having been received, an interesting and very general discussion took place upon it, at the conclusion of which the following resolution, moved by Mr. T. Hilliard, seconded by Mr. B. Hall Brown:—That in the opinion of this meeting the ratio of expense of all of the Life Insurance Companies in Canada is too high—was unanimously carried? A.—No doubt about that.

Q.—That represents all the action taken with regard to that paper does it? A.—Yes.

Q.—And then I think the paper is here in the minutes? It is a paper read by Mr. J. F. Junkin at that meeting? A.—Yes.

Q.—I will read the whole of this paper:

"UNIFORM COMMISSIONS.

"By J. F. Junkin, Managing Director, The Manufacturers Life Insurance Co., read at the meeting of the Canadian Life Managers Association, July 6th, 1900.

"In compliance with the request of the Association, I submit a few thoughts on the subject of Uniform Commissions, not intended in any way to exhaust the subject, but merely to open it for discussion, in the hope that an interchange of ideas may lead up to some united action of a practical

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

nature by the Companies operating in Canada; or failing this, that good will come out of the discussion by inciting individual effort on the part of each Manager to correct the now prevailing tendency towards excess in the cost of securing new business.

"Early in the year 1898, Mr. J. K. Macdonald, in a very able and interesting paper on 'Uniform Commissions and Uniform Rates of Premium," intimated that the first step towards making the latter possible woud be the adoption of uniform rates of premium. This first step has been practically accomplished. The few Canadian and British Companies that have not yet adopted the uniform rates will, let us hope, do so in the near future. In any case, the great majority of the Companies are now in line in this respect, and the way is, therefore, clear for the second step, the main object of which would be the lowering of the price to be paid for the securing of new business.

"If any Manager is still in doubt as to the necessity of such reform, he will, I am satisfied, be convinced by a careful examination of the expenses of the life companies on this Continent. Take for example the year 1899, and compare the total expenses of the Canadian Companies with their total premium income, including single premiums. Out of thirteen companies, over five years of age, not one had an expense ratio of less than twenty per cent.; four were between twenty and thirty per cent.; four between thirty and thirty-five per cent.; three slightly over forty per cent., and two considerably over fifty per cent. Even this record, however, compares favorably with that of the American Companies, whose example we have been following only too closely.

"Omitting the Companies five years old or under, the expense ratios of the American Companies for 1898 range from twenty per cent. to forty per cent., and of the other sixteen, from forty per cent., to eighty-four per cent. Among the latter class, at least five are between thirty and fifty-five years in existence, and in Canada would be considered large Companies. Can anything, for example, justify a Company over fifty-five years of age, with a premium income of over $1,-300,000 having an expense ratio of forty-five per cent. of its total premium income? The three large New York Companies have an expense ratio of about twenty-five per cent., when they could, with much greater profit to their policy-holders, and without impairing their efficiency ,reduce it to one-half, or less.

"When we stop to consider the nature of our business, and that we are practically Trustees, is it not expecting too much of a patient and long-suffering public to presume that they will continue to hand us trust funds on the understanding that out of every three dollars we will charge them one dollar for the investment and care of the other two dollars? It has generally been supposed, and ought to be the case, that the more thoroughly the public are informed on life insurance matters, the more will life insurance be appreciated, and the Companies patronized; but there are some facts in connection with the business as it is transacted in Canada and the United States today that, if made too public, would not tend to increase our patronage. What would be the effect if every Assurer realized that when he pays in one hundred dollars in life premiums, anywhere from twenty-five to fifty dollars goes out at once for the expenses of management, and that the same thing will happen next year, and the year after, and perhaps continue as long as he continues to pay an annual premium? It is only by looking squarely at the facts that we can realize where we are drifting. Can we, as Trustees in the face of such facts, claim that we are making the best possible use of the funds intrusted to our care?

"It is somewhat of a relief to turn from this record of extravagance on the American continent to take a glance at the Life Insurance Companies of Great Britain, where the expenses of most of them range from five per cent. to twenty per cent. of the premium income, about ten to thirteen per cent. being the most general. It is true their business bears a much smaller ratio to the business in force than does ours, but might we not make as much real progress and do as well for our policy-holders were we to write less new assurance, at a more moderate cost, and, once having the business on our books, make a greater effort to keep it in force? By paying a fair remuneration for the securing of new business instead of the excessive commissions now prevailing, the Companies could afford to deal liberally with agents in the matter of renewal commissions. This would have the effect of attracting to the business good men, and also of anchoring them

to their respective agencies and keeping them on their best behavior. An agent having a good renewal interest at stake cannot very well afford to neglect his business.

"Under the present method the difference between the commission on first year premiums and that on renewals is so great that the agent is practically bonused, or at least severely tempted, not only to twist business from other companies, but to actually twist it in his own company. There are several ways of doing this; but perhaps the most common is to let the old policy lapse by studiously avoiding to call on the assured for the premium, or even sending him a notice, and then at a later date recommending a new policy and offering a rebate on the new premium as a modicum of consolation for the loss of his old policy. It is true that some of the companies have recently tried to meet this evil by inserting a clause in the printed part of their contracts to the effect that if a new policy is taken out within a certain period after the lapse of another on the same life, the agent will only be entitled to a renewal commission, but such action on the part of these Companies only emphasizes the fact that the evil has become a serious one.

"This, however, is only one of the ways in which brokerage or high first year commissions are responsible for our heavy lapse ratio. If an agent is headed off in twisting the business in his own Company by a clause of this kind in his contract, he will soon learn the trick of changing his Company say every twelve months, and taking more or less of the business with him. This is made very easy for him by seventy-five per cent. brokerage, as he can keep a fair marginal commission for himself and still allow his client such a large rebate as to reduce the cost for the previous year to that of term insurance. A broker in Montreal was heard to boast that for seven years in succession he insured a wealthy farmer in seven different Companies and that his "victim" has not even yet learned that it was not necessary to take out a new policy each year.

"Thus does the system tend to lead our agents not only to twist our own business, but to leave our employ for that of another Company, which they will again serve in a like manner. If a greater part of the agent's remuneration were contingent upon the continuance of his policies, policyholders would be periodically visited and many who now pay only one premium would be induced to continue. The lapses would also be less on account of the better class of business that would be written, as less time and effort would be given to securing assurances from those who are unable or likely to be unwilling to keep their policies in force. As long as the agent's remuneration for securing new business is from ten to twenty times more than for collecting a renewal, the care of the renewals is apt to have comparatively little of his attention, and the business secured at a considerable sacrifice is lost to the company.

Now, what is the effect on the Companies? On the average a comparatively small increase in assurance in force each year, and that increase secured at what may be fairly called an extravagant expense.

"If the adoption of uniform commissions and brokerages is likely to enable us to even slightly reduce these excessive first year commissions and brokerages, it is worth the trial. The fire companies, through their Association, have for some years successfully maintained a uniform premium and a uniform maximum rate of commission with great advantage to the business, and what they have done should not be impossible to the Life Companies.

As I understand it, the "Canadian Fire Underwriters' Association," to prevent rebating to the assured, adopted a commission of fifteen per cent for business outside of Toronto and Montreal. As far as the Companies are concerned, it is simply an honorable obligation. With regard to the agent, however, if the low commission does not have the desired effect and he is discovered rebating, the policy is cancelled. If he persists in the practice, his agency will be terminated and his business refused by the tariff Companies. I am informed that the low uniform commission has greatly reduced, if not obliterated, the practice of rebating, and the effect on the business has been one of marked improvement in many ways. For example, formerly the agent was being continually tempted to transfer his allegiance from one Company to another by offers of increased commissions or bonuses. Now, having made a connection with a Company, it is likely to continue for years, as no other Company is in a

42nd day, June 14th, 1906.

position to outbid the one he is already representing. The result is less expense to the Company and a better class of agent.

"If we, as Life Companies, are, so to speak, selling the same class of goods at the same price, it ought to be possible to fix upon a fair remuneration for such sales. Having fixed on a rate of commission that is fair to the agent and safe for the Company. I am fully satisfied that the body of gentlemen composing the membership of this Association can not only come to an agreement not to exceed this rate of remuneration, but that, having come to this agreement, it will be honourably carried out.

Most reforms can be most easily introduced in a gradual way, and it might be well, at the beginning, to fix the schedule of maximum commissions fairly high, and then gradually lower it from year to year until a low water mark is reached, on the same principle that the Dominion Government is introducing the Preferential Tariff. In this way the Companies that have been the greatest sinners in the matter of excessive commissions would be first compelled to approximate the proper limit, while the others are not hindered from going still further in the right direction. For this reason five or ten per cent. might be added to the schedule of first year commissions already recommended by the "Committee on Commissions" and five per cent. taken off the second and third years.

The greatest difficulty that seems to present itself is the fact that all agents are not remunerated entirely by commission, some being paid salaries, some part salaries, some advances, and again others, in addition to their commissions, being paid allowances such as office rent, travelling expenses, etc. It would almost seem as if such cases would have to be left largely to the honor of the Manager in each particular case to see that the total cost to the Company does not exceed the limit agreed upon. Even if an occasional case did occur where a mixed contract of this kind worked out a greater expense ratio than that provided for, as long as the commission part of it were lower than the schedule named, it would be better than the present method of high brokerages. For example, an agent receiving fifty dollars per month and thirty

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

per cent. graded commission is not as liable to offer a large rebate to the assured as if he were getting a brokerage of say seventy per cent.

"The agreement should be to the effect that the commissions and bonuses will never exceed the schedule, that where there is, in addition to the commission, other allowances, such as salary, office rent, etc., a corresponding reduction will be made in the commissions so that the total cost to the Company, safer as it can be reasonably estimated, will not exceed the schedule of remuneration agreed upon, and that, if it be found to do so at the end of a certain time, the terms of the contract will be correspondingly reduced.

"By reflex action, rebating forces up commissions, just as high commisison encourages rebating. I would suggest that we couple with an agreement on Uniform Commissions, one framed to prevent rebating, to the effect that an agent convicted of rebating be dismissed from the service of the Company by which he is employed, and that for a period of one year he be refused employment by any other Company a member of this Association. For the trial of those accused a Committee of Investigatigation might be appointed in Toronto, and one in Montreal. The Committee might report its finding to the Manager of the Company employing the agent, and the Manager report his action at the next meeting of the Association.

"I am well aware that agreements of this kind cannot be carried to a successful issue if the Managers individually are not in earnest and anxious to reform the honorable business in which we are engaged, but I have faith enough in the honor and integrity of the gentlemen composing the membership of this Association to believe that, realizing the gravity of the situation, they will honorably carry out any agreement that may be entered into after mature deliberation.

"A careful study of the facts must convince the most optimistic that there are rocks ahead if we do not retrench and collectively as well as individually do all in our power to fulfil our professions of doing our best for the policy-holders."

Q.—Do you know what the rocks were that were ahead? A.—Similar to what we have here.

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

Q.—We could treat this Minute Book as an Exhibit, I suppose, Mr. Bradshaw? A.—Yes, it could be returned.

Minute Book filed as Exhibit 237.

Q.—The Resolution upon that was, "In the opinion of the Meeting the ratio of expense of all of the Life Insurance Companies in Canada is too high"—that was all that was done? A.—Yes.

Q.—You say that at that time it was not considered at all whether entering an agreement of that kind would be treated as an agreement contrary to law, joining together by the members and agreeing that certain rates shall be paid, and no higher rates shall be paid? A.—It was not regarded so by the Association.

Q.—In the same way with an Agreement as to premiums, I suppose no such consideration as that would ever come up? A.—No.

Q.—It was, you say, a bona fide effort on the part of the managers to bring about better conditions for policyholders and for the insuring public rather than to get the matter in any shape that an arbitrary premium could be charged against the proposed insuring people? A.—Yes, and there was also this view, it was thought that if uniform premiums were obtained then it would be simply a matter of rivalry amongst the companies in regard to expense and surplus returned to policy-holders. They were all on an equality, as it were, when they charged the same premium.

Q.—It would be a case of getting the best results with the money in hand? A.—Yes.

Q.—Was there ever any suggestion that if you could get an agreement working then later it would be possible to raise the premiums a little? A.—That was never considered or thought of.

Q.—There was never any suggestion of forming the Association or entering into the agreemnt for the benefit of the insurance company as against the policy-holder? A.—No, because the insurance company represents the policy-holders; the entire profits with the exception of five or ten per cent. of the profits, are returned to the policy-holders.

Q.—Then the persons who are chiefly interested in the Company look harder at the five or ten per cent. than they do at the ninety or ninety-five that goes to the policy-holders? A.—I don't think that true life insurance officers do. I think the true life insurance officer has in view the best he can do for the policy-holders, and if he does well for the policy-holders he must necessarily do well for the share-holders.

MR. KENT: I think you said you had no objection to having the policyholder as a Director? A.—No, I think I would not.

Q.—Have you that burning desire to see him occupy that position in order to convert some of the managers who think the policyholder should be kept out of sight as soon as he has paid his premium? A.—I don't know that that view exists among my brother officers.

Q.—It has been expressed before the Commission, that is why I speak of it? A.—I am rather inclined to think that the view is held that the policyholders should be considered upon all occasions.

Q.—Do you think the policyholder should be put on a pedestal? A.—No, I think that no one should be put on a pedestal.

Q.—At least that he should not then be kept down out of sight, should not be sat upon? A.—No, they never are.

Q.—That is the general complaint, that not only they are sat upon, but that worse happens to them? A.—I have not experienced that condition.

Q.—Your reply to a question in the course of your first examination was that it would do no harm to have the policyholder on the list of directors? A.—I think that I might say this, that it would do good.

Q.—That is the reply that I expected you to make, but unfortunately you did not make it, you said it would do no harm? A.—Well I may say that now, that I think it would do good.

Q.—If the policyholder represents 90 per cent. of the good coming from life insurance, and the shareholder 10 per cent., the policyholder should have say 90 per cent. of the representation, he should be given a fair show, which I am bound to say at the present time he never possesses. The policyholders are not given that position in the management of any company, even the best, which it is admitted by you and by several other fair-minded men that he has a right to occupy. All the witnesses are very solicitous about the policyholder when it becomes a question of some grievance to be redressed,

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

some tax to be protested against, but when it becomes a question of allowing the policyholder an equal share in voting for the Directors, when it becomes a question of admitting the policyholder to have some voice in fixing the salaries of the chief officers of the company, then the policyholder is never considered. One thing that insurance managers never seem to think of, still less to redress, is the increasing of certain expenses in connection with the management. Expenses that are exclusively within their control. They have admitted that they cannot control the agents. They certainly can control their own salaries, and that is what it seems to me not one has ever attempted to do and that is just at the root of the whole difficulty between the policyholder, the shareholder, the director and the manager. Three or four shareholders, directors, get together; they appoint a little Committee amongst themselves, bring in a report about the arduous nature of their duties and the necessity to pay adequate salaries. Straightway a motion is made and carried unanimously that so and so and so and so get an increased salary. One scratches the other on the back, he returns the compliment, and the consequence is the policyholder's expenses are raised without a single protest, and then they all fall upon the agent; he is getting a great deal too much in the way of commission. The agent naturally retaliates. He has not yet retaliated before this Commission but I expect that he will do so before it adjourns. He can probably throw some light on the other side of the question. I know agents have made representations to me that if they were given a fair show they could show that in proportion to the other parties deriving benefits from the insurance companies their commission, salary, or whatever name you may give to it is not considerable. I am astonished that no agent has yet appeared before the Commission. I consider that they could afford valuable information and that they could throw considerable light on the inner workings of insurance companies. I really hope that before this Commission finally adjourns we will hear from the agents. It is asserted that they have ben rapacious in the past and are still so in the present. Surely they will rise to defend themselves sooner or later.

MR. TILLEY: Mr. Bradshaw, I suppose that sort of an arrangement could not be carried through without the unanimous sanction of every company? A.—Commissions?

Q.—Yes, and also premiums. I mean of every substantial company? A.—Yes, it would require the consent of the important companies.

Q.—It would require the consent of all the important companies? A.—Yes.

Q.—Have I given the last of the minutes on that subject. A.—I think that is the last item.

Q.—It dropped with this resolution? A.—Yes.

Q.—Is it fair to say there was further discussion about it later, and it was found impossible to carry it through? A.—Oh, it has been discussed over and over again since then but it has never taken the form of any formal resolution.

Q.—You have given me the reasons why that was practically impossible? A.—Yes.

Q.—Partly by reason of the domestic arrangements of each company with its own agents at the time and for the other reasons that you mentioned, it was impossible to bring it about? A.—Yes.

Q.—But connected with that was the fixing of the premiums as well, going along in the minutes, side by side, I notice is the question of fixing premiums? A.—Yes.

Q.—Was one essential to the other? A.—No, not essential to the other.

Q.—You could have carried through, you think, the arrangement as to fixing agents' commissions, without regard to your premiums? A.—Quite so.

Q.—But you could not do it without the support of all companies. Now all companies were not in the Association. A.—No, although an endeavor was made to bring in all the companies in Canada.

Q.—Into this plan? A.—Into the Association. The amendment to the Constitution which you read this morning would indicate that it was broadened out so as to admit the American companies into membership.

Q.—Did any companies come in as a result of that? A.—The American companies were invited to come in but there was a difficulty found in their representatives not being able to be present at the meetings. For example they could not suggest a proper officer to attend.

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

Q.—Did any companies in particular of the larger companies refuse to enter into this arrangement as to commissions? A.—Of the Canadian companies?

Q.—Yes. A.—I cannot speak of individual companies. That is I don't know. I cannot recall individual companies.

Q.—It did not get that far, probably that any company was called upon to agree. A.—To signify.

Q.—The result of the general discussion was that it was evident that the difficulties which were raised, real or imaginary were such that it could not be carried through and that was practically the way it was left? A.—That was it, yes.

Q.—If something of the nature that you outlined there today by agreement would be beneficial—and you think it would? A.—I do.

Q.—Could that be brought about by legislation, do you think? A.—I think if it were deemed practicable through an agreement, it would be found workable by legislation.

Q.—Do you think that that would be a fair thing to legislate on under the present condition of life insurance business? A.—Well, I can hardly express myself in that respect.

Q.—I am asking whether it would be an undue restriction on the freedom of a company in your opinion? A.—I hardly think it would.

Q.—You think it would not be an unfair restriction on them? A.—I don't think so, although I would not like to speak for the Association on that point. I am speaking individually.

Q.—Individually you think that if some scheme could be devised that could be enforced and carried out that it would be beneficial from an insurance standpoint. A.—I do.

Q.—And have you anything better to offer in the way of what should be fair commissions and that you think should be divided than the schedule which is attached to that resolution? A.—I was one of the members of this committee.

Q.—Then I would not expect you to criticize that, unless you have changed your mind since. A.—We gave a great deal of consideration to the scale of commissions, and I thought then and I have not changed my opinion now, that it is a fair scale of commissions.

Q.—Was that scale of commissions fixed by you three gentlemen, or was it two or three? A.—I think three or four.

Q.—By the committee, whatever it was; was it fixed by yourselves, acting on your own initiative? Or was it arranged after discussion with other insurance men, was it pretty well the concensus of opinion? A.—It was the result of the views of the committee alone.

Q.—At the time it was presented? A.—Yes, but I may say that we had several meetings before we fixed on these commissions. They were not arrived at hurriedly; they were carefully thought out.

Q.—And probaby, I suppose, as a result of more or less discussion that each of you would have with other people? A.—Yes, that might be the the case.

Q.—Your views would probably be partly your own and partly developed by talking with other people? A.—Other insurance men, yes.

Q.—Then, after the report was sent in, what seemed to be the idea of the other members of the Association as to the scale of the commissions? A.—I think that I may say that all, or nearly all, of the managers would have liked to have such a scale put into effect. I think they all believed that these commissions were fair commissions, and that the adoption of such a scale would have a beneficial effect upon the conduct of the business.

Q.—And that the commission was large enough for all practical purposes, as much as the agent should be paid? A.—We deemed so.

Q.—Then, I believe, that when the Act came into force changing the basis of computing the reserve, that that involved a good deal of work, did it not, on insurance companies? A.—Yes.

Q.—Would you explain just what work that would involve? A.—As soon as the Act came into effect it was essential for the companies to tabulate new tables of reserve; the rate of interest having been changed that necessitated a change in the values of policies and a committee was formed to calculate the reserves on a new basis.

Q.—Was that on February 24th, 1900? A.—I think, probably, it would be about that time.

Q.—Resolution No. 6. Mr. Sanderson presented the Preliminary Report of the Committee having in charge the compilation and publica-

42nd day, June 14th, 1906.

Canadian Life Insurance Officer's Ass'n. (T. Bradshaw, Ex'd.)

tion of the 3½ per cent. reserves. The Association decided to leave all details in connection with the work in the hands of the committee. That does not name the committee. A.—The committee was composed of Mr. Sanderson, Colonel Macdonald and myself.

Q.—That is the actuaries of the Canada Life, the Confederation Life and Imperial Life? A.—Yes.

Q.—Then on November 15th, 1900, the committe to whom was intrusted the compilation and publication of the 3½ per cent. reserves, presented its report through Mr. Bradshaw, in the temporary absence of Mr. Macdonald, the Chairman, and the report was adopted. Then a meeting was held when some presentation was made to each one of the committee? A.—Yes.

Q.—What did the work of that committee involve? A.—It involved the compiling of reserves on the basis of the Institute of Actuaries Healthy Males Table of Mortality 3½ per cent. interest; included the net premiums on that basis and both terminal reserves and mean reserves, that is reserves applicable to policies in the middle of the year and policies at the end of the year. Those values are the values which are now employed by the companies in estimating their liabilities on that basis at 3½ per cent.

Q.—It is said here that it is compiled by you three actuaries and published by the Canadian Life Managers' Association. Does that mean that the Life Managers' Association had the book printed? A.—Yes.

Q.—For the members of the Association or for general distribution? A.—For general distribution. The companies were charged $25 per copy, and any person outside the Association was charged the same price. Quite a number of copies were asked for by American and British actuaries, and I think even in Australia.

Q.—That would, I suppose, be a work of great assistance to the smaller companies, would it not? A.—Yes, to all the companies.

Q.—Especially, I suppose, to those that had not their own actuarial assistance? A.—Yes.

Q.—Was there any effort made by the Life Managers Association to keep this from the smaller companies, not members of the Association? A.—Oh no.

Q.—Or was it the object to give them the benefit at what you might say was the cost of the book? A.—It was freely given to those who applied for it; it was never kept back from anyone who desired it.

Q.—Then, besides the regular premiums, leaving that for the present, I notice that there was some extra hazardous risks that were dealt with by the Association at certain times? A.—Yes, I have not got a memorandum of the date.

Q.—On September 1st, 1895, I think it appears first; the question of extra rates for extra hazards was briefly discusesd by the President and Mr. Hendrie, but as no one had prepared especially to discuss the question it was decided to leave it for a full report at next meeting and a committee consisting of Messrs. Hendrie, McCabe, the President and Secretary was appointed. Apparently nothing was done on the subject at the next meeting and the matter stood until February 24th, 1900, when a special report was brought in. The report was received and a copy furnished to the members of the Association in order that action might be taken on it. The different occupations that were looked upon as being extra hazardous are set out in the schedule that is appended, and the extra premium chargeable is stated there. Was that ever carreid through? A.—Not by all the companies, but those extra premiums were adopted by some of the companies.

Q.—Each acted adopting or not adopting it for themselves, or was it aoopted by agreement by some of the companies? A.—No, not by agreement. For themselves.

Q.—That is, any company that approved of it and considered that it would be wise for it to adopt it, did so? A.—Yes.

Q.—Others left it just as it was? A.—Yes.

Q.—So that is the only action taken by the Association with regard to that matter? A.—There is a committee at the present time looking into the question of extra premiums in the light of more recent statistics and information and before long that committee will bring in a Report and a recommendation.

Q.—Before long? A.—Oh, within a month or two. It is a pretty big question and has to be carefully handled and a great deal of correspondence has to be gone through.

Q.—Probably you will be good enough to supply us with a copy of that when it is put in? A.—Yes.

43rd day, June 20th 1906.

MR. SHEPLEY: Will your Honours make an announcement with respect to meeting again?

JUDGE MACTAVISH: The adjournment will be until 10.30 a.m. on Wednesday the 20th inst. We will go on from then and continue during the whole of the next week.

(At 4.30 p.m. on Thursday, 14th June, adjourned to 10.30 a.m. on Wednesday, 20th June, 1906.)

FORTY-THIRD DAY.

MORNING SESSION.

Toronto, Wednesday, June 20, 1906.

EXCELSIOR LIFE INSURANCE COMPANY.

MR. TILLEY: I propose this morning to take up the Excelsior Life Insurance Company.

DAVID FASKEN, sworn, examined by—

MR. TILLEY: Q.—You are the President of the Excelsior Life Insurance Company? A.—Yes.

Q.—Have you been interested in the company since its formation? A.—Since the formation of the Excelsior Life, yes.

Q.—It was first known as the Protestant Life Insurance Company of Ontario, Limited, was it not? A.—Yes; the Excelsior Life took over the Protestant Life, that was really what it was; they took over the subscriptions.

Q.—Was it not merely a change in name? A.—There was really a change in the whole company, new men in it.

Q.—There was a change in the shareholders, involving new management I suppose, and a re-organization? A.—Yes.

Q.—And the persons that were taking an interest in it at that time took over the old company? A.—Yes.

Q.—The company was incorporated by letters patent? A.—Yes.

Q.—Not by a private Act? A.—No.

Q.—This is the first company we have had that was incorporated by letters patent, the letters patent being issuel from the Province of Ontario? A.—Yes.

MR. TILLEY: I will put a copy of the letters patent; they are dated 7th August, 1889, they incorporate Edward Frederick Clarke, Publisher, James Douglas Wells, Insurance Agent; John Ferguson, Physician; William Bell, Merchant; James L.

Hughes, Public School Inspector, and William Galbraith, Clergyman, all of the City of Toronto, under the name of Protestant Life Insurance Company of Ontario, Limited. The incorporation is under the Ontario Joint Stock Companies' Act, and also pursuant to the Revised Statutes of Ontario, under the Insurance Act contained therein.

Letters patent filed as exhibit 238.

Q.—Were you a party to the application for the letters patent? A.—No, we had nothing whatever to do with the company; I do not think it ever did business.

Q.—The name did not seem to be permanently a very useful one? A.—I do not think it would appeal to business men to adopt such a name.

Q.—I think it was changed by an Order in Council, dated 11th December, 1889 (reads). A subsequent Order in Council, dated 11th Decemcember, 1899 (Reads). Supplementary letters patent were obtained amending the original letters patent—do you remember about that, that the original letters patent obtained provided that the operations of the company should be carried on in the city of Toronto, and at such place or places within the Province of Ontario as may hereafter be determined upon by the company? A.—Yes.

Q.—And supplementary letters patent were obtained on the 5th May, 1897 taking out that clause in the original charter? A.—Yes.

Q.— Why was that done? A.—To enable the company to do business in any other Province.

Q.—Was that at the time you were applying for a Dominion license? A.—We applied for a Dominion license later than that, but it was all in the same view.

Q.—In view of an intention on your part to carry on your business outside of Ontario? A.—Yes.

Q.—And, preparing for that, you would have this amendment made? A.—Yes.

Q.—I think there was some correspondence with the Department on that subject? A.—Possibly.

Orders in Council referred to and supplementary letters patent attached to exhibit 238

Q.—Have you ever considered the advisability of incorporating an insurance company under letters patent in that way, as compared with a private Act? A.—No.

Q.—Have you found any inconvenience by being under these letters

43rd day, June 20, 1906. Excelsior Life, (D. Fasken, Ex'd.)

patent? A.—No, we have found no inconvenience.

Q.—You have been able to carry on this business by virtue of the general clauses of the Companies' Act and the Insurance Act just as well as if you had them all set out in a charter of your own? A.—Yes.

Q.—I suppose it is safe to say Mr. E. F. Clarke was the prime mover in bringing about the original incorporation of the company? A.—That is before my time.

Q.—You came into it shortly after? A.—I came into it when the Excelsior Life was formed.

Q.—When the name was changed from the Protestant Life Insurance Company to the Excelsior? A.—Yes.

Q.—Mr. Clarke was the original President? A.—Yes.

Q.—And he was also manager for some years? A.—Not in the early years he was not manager; later on he was General Manager. He was appointed General Manager in 1892.

Q.—So that between the date of the incorporation of the company and 1892 some other person occupied the position of Manager? A.—Yes, Mr. Lomnitz.

Q.—He became the President and General Manager, and continued to occupy both positions down to what date? A.—He resigned his appointment as Manager in 1898, and he contined to act as president for two years longer.

Q.—Was that down to the time of his death? A.—No.

Q.—He resigned the position of President, and who was appointed President? A.—I was.

Q.—When you became interested in the Excelsior did you become interested as one of several persons that were taking an interest, or were you acting entirely for yourself and independent of any other parties? A.—Absolutely for myself.

Q.—Did Mr. Gooderham take an interest in it at the same time? A.—I am not sure whether it was the same time or later.

Q.—You did not take an interest because he was taking an interest in it? A.—No.

Q.—But he may have taken an interest in it afterwards because you were in it? A.—No. I may say Mr. Clarke asked him to subscribe for stock; I would think so; I have no recollection of that at all.

Q.—It was entirely independent of you? A.—Yes.

Q.—It was not a body of persons going into the company with the intention of taking control of it at that time? A.—No; in fact, Mr. Gooderham and myself had very little stock in the company.

Q.—At that time? A.—Yes.

Q.—Can you say what your holding in the capital stock of the company was originally? A.—My original subscription was only ten shares.

Q.—How soon did it become any considerable amount? A.—About six years ago, I think.

Q.—I see your original subscription was in October, 1890? A.—Yes.

Q.—And at that time you subscribed for ten shares of the stock, paying up $150? A.—Yes.

Q.—Had the call of 15 per cent. been made on the stock before you subscribed or became interested at all? A.—No, mine is original stock.

Q.—I understand practically nothing had been done towards organizing the Protestant Life Insurance Company or the Excelsior until you became interested, excepting the getting out of the charter? A.—The getting out of the charter, and they had a number of subscriptions.

Q.—But no stock had been allotted or calls made, or anything of that kind until you subscribed for your stock? A.—I think a number of people had certificates for stock, but I don't think they started business; in fact, I know they did not start business.

Q.—Your stock remained the same until 1895, when you got a transfer of five shares more? A.—Yes.

Q.—And then it remained the same until 1898? A.—I think that is right.

Q.—When you increased your holding of stock considerably? A.—Yes.

Q.—And, I see, that you are quite right about Mr. Gooderham, apparently he did not become a shareholder in the company till 1895? A.—Yes.

Q.—Some years after you were a shareholder in it; he then took sixty shares. I notice at one time, April 30th, 1901, you transferred a large block of stock to Mr. Gooderham? A.—Yes.

Q.—Had that anything to do with any arrangement regarding the company, or was that a purely private matter between you and Mr. Gooderham? A.—A purely private matter.

Q.—Nothing to do with any arrangement as to stock holding? A.—No, it was a sale of the stock to him.

Q.—You afterwards purchased it back? A.—No.

Q.—He kept that stock? A.—Yes.

Q.—The original subscription for stock was on the basis of 15 per cent. call being made? A.—Yes.

43rd day, June 20, 1906. Excelsior Life, (D. Fasken, Ex'd.)

Q.—It was subscribed at par? A.—Yes.

Q.—There was no premium on the stock? A.—No.

Q.—We have had several companies that issued their stock at a premium; do you think that is advisable or necessary? A.—It is necessary in a life company, unless you have a certain number of men who join together and are prepared afterwards to put up for the impairment that must necessarily follow their doing business.

Q.—That is where a company is commencing business by reason of the higher reserve which it must put up and maintain for its policyholders, that means the shareholders' money must be used for that purpose? A.—Yes.

Q.—And if it is taken from your capital, that shows an impairment of capital? A.—Yes.

Q.—And if it is not taken from capital, it must be taken from some voluntary payment or something which is not called capital? A.—Yes.

Q.—Call it premium or bonus, or whatever you please, it must be something as an extra to your stock? A.—Yes.

Q.—Is it looked upon as objectionable for a company to have an impairment of capital? A.—It makes it much harder for agents to get business; the public do not understand it.

Q.—It is a method of insolvency, so to speak, brought about by the insurance requirements? A.—Yes.

Q.—It is not insolvency as we would regard it in another company? A.—No, a company perfectly solvent may show an impairment.

Q.—But do I understand that one agent is careful to bring the fact to the proposed applicant's attention that such a company has its capital impaired? A.—That is the very reason why companies are anxious to avoid showing an impairment, so that agents cannot make capital out of it.

Q.—As a matter of fact, I suppose there should be no real objection to showing an impairment of capital at that stage in the company's business? A.—No.

Q.—If it was not for the public effect? A.—The public effect, that is the only objection.

Q.—There is no reason why the money should not be taken out of capital just as well as to pay something extra, and take it out of it? A.—Promoting any business you require to expend capital.

Q.—The first payment being 15 per cent., carried with it no bonus or premium at all? A.—No.

Q.—And the shareholders had not agreed to any such bonus or premium? A.—No.

Q.—What amount can you say was realized by the first call on the stock? A.—$52,500.

Q.—That would be in 1890? A.—A.—Yes.

Q.—Can you say how soon it became evident that there would be an impairment of capital in the ordinary carrying on of the business? A.—About 1893, and that was made by asking the shareholders to contribute 5 per cent. bonus.

Q.—Just there, let me ask you what kind of business the Excelsior Life was carrying on at that time? A.—Purely straight life business, ordinary life business.

Q.—Were you on the Board of Directors at that time? A.—Yes.

Q.—Have you been on the board ever since you entered the company? A.—Yes.

Q.—The Excelsior commenced writing an industrial business? A.—Yes.

Q.—From its commencement in 1890? A.—No, they did not commence the industrial business until 1895 or 1896.

Q.—So that for several years it was carrying on just the ordinary life insurance business? A.—Yes.

Q.—Then, in 1893 it was found that there would be an impairment of capital? A.—Yes.

Q.—To what extent? A.—About, I should say, sixteen or seventeen thousand dollars; I am just figuring that out from the 5 per cent.

Q.—Your recollection is that the 5 per cent. was fixed as being the amount that was absolutely necessary? A.—Yes.

Q.—You were not getting ready for a further impairment the following year? A.—No, nor would we have had any if we had not started the monthly business.

Q.—1893 was the fourth year practically of the company's existence? A.—Yes.

Q.—It was just coming to the point then where it would be put on a better basis? A.—Yes.

Q.—And had it not been for opening up the industrial business that 5 per cent. bonus that was called at that time would have been sufficient to have kept your capital unimpaired all the time? A.—I think so. There was another amount of some five thousand dollars or something that we put up,

43rd day, June 20, 1906. Excelsior Life, (D. Fasken, Ex'd.)

but the real trouble was when we went into the monthly business, and spent a lot of money in that from about 1895 1896 on; then we had to make another bonus call, or ask the shareholders to contribute 5 per cent.

Q.—You speak of a sum of $5,000, when was that required? A.—I cannot remember.

Q.—I think it was in 1892, was it not? A.—I don't know; I think you are likely right.

Q.—The year before the bonus was raised? A.—Yes.

Q.—And I think it was $5,500? A.—Something about that.

Q.—And that was, I suppose, required for the very same purpose, this question of impairment of capital? A.—Yes.

Q.—That being the first amount raised in that way, can you tell me how that $5,500 was raised? A.—The directors raised that on their promissory note.

Q.—What directors; all of them? A.—No, I think about four.

Q.—Can you give me the names of the persons that were on that note? A.—Mr. Clarke, Dr. Ferguson, I think, Dr. Urquhart and myself and Mr. Lang.

Q.—There would be five of the directors gave their promisory note to the company? A.—No, they gave it to the bank and raised the money; the bank gave the money to the Excelsior.

Q.—Did the bank give the money to the Excelsior at that time? A.—We gave it to the Excelsior; we raised the money and gave it to the Excelsior.

MR. LANGMUIR:—The note was discounted and the proceeds given to the company? A.—Yes.

MR. TILLEY:—Was that money paid into the ordinary funds of the company at the time? A.—Yes.

Q.—Was it or was it not left on a special deposit with the bank? A.—My recollection is it was paid into the company.

Q.—My information is different, can you check that in any way? A.—No.

Q.—Have you an account of that $5,500 here? A.—Mr. Marshall tells me that was put to the credit of the company, the same amount was left at our credit, that is, at the credit of the company with the bank, and a special rate of interest given on it.

Q.—Explain that fully? A.—It is all paid off; otherwise I could get you the certificate. The directors gave their note to the bank, raised the money, and the company got the funds; then the company carried the same amount at their bankers, and by so doing there was a special rate of interest given.

Q.—There was a special rate of interest given by the bank? A.—Yes, that was simply——

Q.—What rate of interest was given? A.—I think it was $3\frac{1}{2}$ per cent.

Q.—As I understand it, the note was discounted at the bank; that would produce the $5,500? A.—Yes.

Q.—That, then, I suppose, was given to the company, and then the company made a special deposit; I suppose that was simply put in the books of the bank to the credit of the company in a special account? A.—Yes.

Q.—What became of that special account? A.—The loan was paid off.

Q.—What loan? A.—The loan which the directors got from the bank.

Q.—It was paid off by whom? A.—By the directors.

Q.—When was it paid off? A.—It was paid off from time to time in the course of several years.

Q.—How was it paid? A.—My recollection is there was a commuted commission agreement between Mr. Clarke, representing the directors, and the company

Q.—When you say a commuted commission agreement, what do you mean? A.—Where there would be an agency, where money was expended and commissions coming in, it would not have to be paid for again; that money would go to the credit of Mr. Clarke, to whom it was assigned.

Q.—Have you a copy of the agreement here? A.—No.

Q.—Is there such a document? A.—There was such a document.

MR. MARSHALL:—I have made a search, and I do not think it is in existence now.

WITNESS:—If I can find it I will let you have it.

MR. TILLEY:—Some agreement was entered into between the company and Mr. Clarke whereby certain commissions were to be credited to Mr. Clarke? A.—Yes.

Q.—Commissions on what? A.—On business done, that the company had paid for.

Q.—Why was that agreement entered into? A.—So that he would be able to get the money to reimburse the directors.

Q.—That agreement, I suppose, was entered into at the time the note was given? A.—Yes.

Q.—And do you know to what extent moneys were credited to Mr.

43rd day, June 20, 1906. Excelsior Life, (D. Fasken, Ex'd.)

Clarke pursuant to that agreement? A.—They have all been paid off.

Q.—The whole note has been paid? A.—Yes.

Q.—Do you know at what rate it was credited to him? A.—$600 a year, or something.

Q.—Have you the account here? A.—(General ledger produced).

Q.—This account is headed "Commuted Commissions," at page 276. I see by the ledger that payments were made under this commuted commissions' account of about $600 each year? A.—Yes.

Q.—And each quarter an item would be paid out representing the accrued interest on the note? A.—Yes.

Q.—And that was carried along until by these payments of $600 a year the original note was wiped out? A.—Yes.

Q.—In effect, the company paid the note? A.—Yes.

Q.—And was that $5,500 standing to the credit of the special account in the bank during the whole of that time except in so far as it would be paid off in that way by the $600? A.—Yes.

Q.—So that that $5,500 was never really taken from the bank? A.—No.

Q.—It was always in the hands of the bank; so that, shortly, the way the transaction was carried through was this: That a note was given by the directors on which a certain sum of money, $5,500, was credited to the company in a special account in the bank? A.—Yes.

Q.—And that money was chequed to the company each year to the extent of $600, and the company chequed out $600, going to apply on that note? A.—Yes.

Q.—So that the company never got the benefit of that $5,500? A.—Yes, they did.

Q.—How did they get it? A.—If anything had happened, the directors were liable for it.

Q.—Was the company a party to the note? A.—No.

Q.—Was it liable on it? A.—No, the company were not liable in any way on it.

Q.—If default had been made, the bank could not have sued the company? A.—No.

Q.—Was the bank a party to the agreement regarding commuted commissions? A.—No.

Q.—So that it seems to be just in that shape, that there was an agreement with the directors, but there was no agreement with the bank? A.—No agreement with the bank.

Q.—That the company should pay $600 a year until that note was wiped out? A.—That is right.

Q.—And until the transaction was cleared up? A.—Yes.

Q.—I suppose that that $5,500 was used for some special purpose with the company? A.—It was simply for the promotion of the company's business.

Q.—Can you tell me what use was made of that asset by the company, was it to reduce other items in its expenses? A.—No, it would come in as part of the assets of the company.

Q.—Was it shown in the annual statement that was made up as being cash in the bank? A.—It was shown as an asset; I don't think it would be, I think it would be ordinary assets, and if at the end of the year there was cash in the bank it would be part of it.

Q.—I want to know whether that is the way it was done, or was that money used just by way of reducing some items of expense, so that the expenses did not appear? A.—No, there is nothing of that kind in this; it is simply the case of an impairment the same as other things.

Q.—Have you anything which shows how that money was applied?

MR. MARSHALL: This is beyond the time we were requested to give information, we have not looked into it.

WITNESS: We will try and find it for you.

MR. MARSHALL: I am informed by the Accountant it went in as cash on hand.

MR. TILLEY: Q.—Can we check this from the books you have here? (Produces general ledger and journal). A.—Taking under the head of Head Office Salaries in the general ledger number 1 on December 31st, 1892, on the credit side of the account appear two items, December 31st, By profit and loss $3,611.09, and By cash $1,000. Is that $1,000 that is credited there on Head Office salaries part of that $5,500?

MR. MARSHALL: I don't know.

MR. TILLEY: It seems to be here on page 37 of the Journal; December 31st this entry appears: "Cash, Bank of Toronto, debtor $5,500; to Head Office Salaries $1,000, to Agents' salaries $1,000; to Commissions $2,000; to Agents' travelling expenses $1,000; to Agency expenses $100; to Office expenses $100; to Legal expenses $200; to Advertising $100"—so that that would show the application of that $5,500 on the 31st Decem-

ber, 1892? A.—I suppose so; it is something I know nothing about of course. I know of no reason why they should apply it one way or the other.

Q.—The money was used to reduce these items of expenditure that appear in that statement? A.—I must leave you to put a construction on it, for I really do not know a blessed thing about it, and Mr. Marshall says he does not, he was not aware of it. There is no use my swearing to something I don't know anything about.

MR. KENT: It is like what we have seen with other companies, that the accounts were not what they should be. It is quite clear that it is an application by certain entries to reduce expenses that ought to have been shown at their real amount.

MR. TILLEY: That of course was the point I just wished to establish there. There seems to be no question about that.

MR. KENT: Somebody should be responsible for that sort of thing.. A.—You will have to go back to those in charge at that time for the responsibility.

Q.—I understood you were in charge at the time.

MR. TILLEY: No, Mr. Fasken was not President for some years A.—I owned ten shares in the company at the time, so I know nothing about it.

Q.—Mr. Clarke was the President. A.—All these accounts as I understand it were gone over by the Ontario Inspector of Insurance and an explanation given about them. No individual was getting any benefit from them in any shape or form.

Q.—Would you show me the checking out of the $5,500 from the Bank of Toronto to the Company. I will have this taken down so as to make that complete. At page 16 in the Ledger is an account headed "Bank of Toronto Special Deposit" and that shows the original amount, $5,500, and then each year afterwards a payment out by the Bank of $600 to the Company, and then on page 276 in the Commuted Commission Account shows the payment back by the Company of the same amount each year, so that the note, the deposit at the bank would be reduced $600 each year and the commuted commission payment would just go to pay that reduction.

MR. LANGMUIR: Would that $600 go in each year as expenses, commission?

MR. TILLEY: No, the whole account originally was used to reduce the expenses of the year in which it was put in in the first place, and then the $600 paid out of that commuted commission account would appear as an expense of that year for commissions, in subsequent years. That is, the result of the transaction would be as I see it to not show $5,500 of expenses in the year 1892 but to spread that over at the rate of $600 a year for subsequent years. That is really what it resulted in. A.—That is the result and that is what was intended.

MR. KENT: It would be an accommodation note repaid by the Company in a series of years.

MR. TILLEY: Except that the company was not a party to the note was it the understanding that it should be put through in that way.

Q.—I think we understand the transaction, and as you say that was before your active association with the company that was not evolved by you. A.—No, that was not evolved by me.

Q.—Were you a party to the note? A.—Yes.

Q.—Then you knew what was going on? A.—I knew we were raising that money. I knew nothing about any suggestion of the application being made in that way.

Q.—What application do you mean? A.—The application of the money as you put it there.

Q.—To expenses? A.—Yes.

Q.—On the 31st of the year. A.—The way that is explained to me is this, prior to that time the Government had allowed as an asset certain commuted commissions, something of that kind, something for business done. About this time they ceased allowing that. The company had expended their money in getting their business and that sort of thing; for example if they had expended $5,000 in establishing an agency; nothing had come back; that was a good asset to the company but the Government would not allow anything on it. Now if Mr. Clarke takes an assignment of that asset he has a perfect right to get the commissions credited to him coming from that agency and in that way it would be reduced. Now that is the explanation at the time.

Q.—Then see if we clearly understand what you mean. Before that time the Government had been in the habit of allowing in the company's statement where they charged themselves with the reserve they owe their

policyholders, allowing them to credit an item for commuted commissions. A.—Yes.

Q.—That is a sort of good will item for the business it had in prospect by reason of the expense it had been at? A.—Yes, wait until I ask if that is the right name for it.

MR. MARSHALL: Well, I cite one an agent's salary we debit ourselves with the salary paid but we are allowed to take no credit for the commissions outstanding and which will ultimately come in and reduce that. That is the practice in the Dominion. In the early history of the companies you find they all took credit for commuted commissions in that way.

MR. TILLEY: I did not know that that was the case where you would pay an agent by salary.

MR. MARSHALL: Well, I cite one instance. There may be a case where an agent is under a commission contract which gave him the renewals for a few years and he may be leaving the service of the company and the company may agree to commute, or by a single payment to discharge that liability.

MR. TILLEY: Quite so. Then the company simply pays out the amount he commutes that commission at and that denotes the payment.

MR. MARSHALL: We did not know that this was required. I can find the original list of policies and insurances which were embodied in that agreement. It may take some time to find it but it is in existence somewhere and I can furnish it to the Commission. We have moved three times since then.

MR. TILLEY: I would be very glad to have that. Then you will get for us the original agreement with Mr. Clarke and the statement with relation to that about the commissions. At any rate you say, Mr. Fasken, that there was a change in the method of the treatment of some of these accounts by the Department as to allowing the company to take credit for certain items. A.—What was told me when I signed that note and the statement was being made up was that such a thing had been done by the Insurance Department in the past but it was no longer allowed so it could not be put in as an asset, but that it was a good asset and, of course, I know it is a good asset and the particulars were given us to show that that money that we were becoming responsible for would come back to Mr. Clarke by way of commissions and would wipe out that note, and that there was ample there to do it.

Q.—Those commissions that were paid to Mr. Clarke were not commissions, as I understand it, earned by Mr. Clarke in any way? A.—No, but they were purchased for Mr. Clarke by us, putting that money in the bank to the credit of the company.

Q.—The money that was put in the bank to the credit of the company was treated in that way? A.—And Mr. Clarke was only there as trustee for the rest of the parties who signed the note.

Q.—Probably we had better follow that up after we have got the documents, if there is anything more to be said. Then the next date at which money had to be paid in, in order to prevent an impairment of capital, was about the year 1893; that would be the following year? A.—That is the 5 per cent., yes.

Q.—Have you the papers here that show the call of that 5 per cent. on the shareholders? A.—No, I don't remember anything about it, as a matter of fact. I don't think you will find those papers here, because the circulars sent out led us to understand that we only had to give information from the time that we came under the Dominion Government. You understand, we are not objecting or neglecting to give you that information. If you want any information you will get it as soon as we can get it for you.

Q.—It is quite fair that you should make that statement. That is the way you understood the circular. A.—Yes.

Q.—Although the circular said for fifteen years?

MR. MARSHALL: No; it reads, only from the time we have been incorporated under Dominion license.

MR. TILLEY: We will get the facts anyway, and that is the main thing. Then, that 5 per cent. bonus; at that time you did not in any way increase your holding of capital stock in the company at the time that bonus was levied? A.—No.

Q.—It was not a liability that the shareholders were bound to pay? A.—No.

Q.—Did any of them refuse to pay? A.—I think two or three; not refused, but neglected. I don't think they could be found.

Q.—You cannot tell from memory the sort of circular or information that was supplied to the shareholders as justifying the calling upon them for 5 per cent. bonus? A.—No; I had

not sufficient interest in the matter then to bother.

Q.—The same amount could have been realized by a call on the stock? A.—Certainly.

Q.—Do you know why the directors did not pursue that course? A.—That would only have been putting it on the other side of the ledger. It would not have improved the impairment of capital.

Q—Then was there any special transaction regarding that 5 per cent. premium to which you were a party, by way of any negotiation or arrangement with the bank? A.—No.

Q.—There was nothing special about it at all? A.—No.

Q.—The call was made for the money and was it paid in in anticipation of the shareholders paying the bonus? A.—No, they just paid in as they could be got hold of. They were simply asked to pay it in and they paid it, there was nothing more about it.

Q.—Then the next time that a bonus was required was in the year 1898, I think? A.—Yes.

Q.—When you asked for a 6 per cent bonus? A.—Yes.

Q.—In the meantime you had taken up this industrial business? A.—Yes.

Q.—Was that with your approval, I mean did you regard it when you started on it as being a judicious thing for a life insurance company? A.—No, I was against mixing up the two kinds of insurance. I had very little interest in the company at the time and I had no reason to press it.

Q.—Do you mind saying whether your experience justified you in your opinion in the stand you took on that point? A.—Yes, it did.

Q.—You think it is unwise for a company to try to carry on both branches of the business? A.—I certainly do.

Q.—Mr. Geary asks whether it was industrial or provident? That is practically the same? A.—We look upon them as both the same. We used to call it monthly. Some call it industrial. We call it the monthly business. Some of them have weekly payments.

Q.—The weekly was called industrial by the Union Life, and the Provident was monthly. But that probably would be names chosen by the company itself. A.—Yes.

Q.—As applicable to its own business. From your experience, Mr. Fasken, what would you say as to the industrial business if carried on separately from ordinary life insurance business? A.—In what way?

Q.—Can you say roughly how the premiums would compare with ordinary insurance in your experience? A.—The premiums are much higher, very much higher.

Q.—As to the propriety of it. It is mainly an insurance on children, is it not? A.—And very frequently on old people. Some old people want to provide simply for funeral expenses and that sort of thing. It is a very expensive insurance. It is hard on poor people.

Q.—Can you compare them by percentage? 90 or 100 per cent higher, are they double? A.—I wouldn't like to say that. Our monthly plan, Mr. Marshall tells me, is 40 per cent. higher.

Q.—What would be your opinion as to the insurance of children at the age that these industrial companies insure them? I am told they insure them under 5 and between 5 and 10 years of age. A.—Well, I cannot understand the object of people insuring children like that.

Q.—It is said that it provides a fund for funeral expenses in case of the child's death, just as in the case of the older person you have mentioned. A.—Well, it is quite different. An old person insuring himself is where no person will take care of him. Surely the parents will take care of the child's funeral.

Q.—Did you give it up entirely because you did not think the two branches could be joined in one company, or because you thought it was too expensive a line for you to carry? A.—It would take too much money for the company to promote and to carry on, we would have had to take money that belonged to the ordinary life business and that ought to go to them for profits.

Q.—You would have to use that money to develop the industrial? A.—We were using it and we would have to use it. It takes a much larger sum to develop that stuff than the ordinary business.

Q.—We have had some evidence or opinions expressed as to the possibility of selling and disposing of industrial business at a substantial value. Can you say anything about that? A.—Well, if any company has a large volume of such business on its books, it has cost a great deal of money to put it there, so it ought to bring a corresponding amount.

Q.—Have you had any experience that would lead you to think that that large amount which ought to be realized can or cannot be obtained? A.

—Well, of course our company could have sold out. That is we could have sold out that part of our business.

Q.—Could you have sold it at what it cost you? A.—No.

Q.—Or anywhere near that amount? A.—No.

Q.—Can you say what percentage of the cost you would have got back? A.—No, I could not say that.

Q.—You could not give any idea of what sum a company that owned an industrial business might properly put in its accounts as representing the goodwill of that, an item that could be realized by selling it and turning it over. A.—No. The offer that we had was about a year and a half's premium on our business.

Q.—That would be a very small offer would it not? A.—Well, we did not accept it, we thought we had better work it out.

Q.—Then in 1898 you say it was entirely by reason of this industrial business that you required to make another call for a bonus of 6 per cent. A.—Yes. We were opening up new territory also.

Q.—Where were you opening up then? A.—British Columbia and I think Quebec about that time too. We were spending money in Quebec.

Q.—In what territories are you now, outside of Ontario? A.—We are in the whole Dominion now.

Q.—In each Province? A.—Yes, we are not started very long in some of the Provinces.

Q.—Are you carrying on business outside of Canada? A.—No.

Q.—You have no foreign field at all? A.—No.

Q.—And I suppose the opening up of the other Provinces would be expensive? A.—Yes.

Q.—And all that, you say, brought about the result that you needed a 6 per cent. bonus.? A.—Yes.

Q.—Then I will put in a sample of the letter that was sent out. This is dated December 29th, 1898, marked "confidential" and addressed to one of your shareholders at Toronto. (Reads Exhibit 239.) You say the 5 per cent. bonus is unpaid? A.—I think there are only 2 or 3 individuals that that would apply to, so that that must be a particular letter rather than a sample.

Q.—That is signed by Mr. Marshall, Secretary. Were you the President then? A.—In 1898, no.

Q.—Mr. Clarke was still President. That letter speaks of a large percentage of the shareholders who had already agreed. "Two-thirds have agreed to the proposition." That would be, I suppose, the persons who were larger holders of stock, who would be consulted before the plan would be adopted to ascertain whether it would be such a proposition as would carry the judgment of the larger holders of stock, I suppose? A.—The money was paid over before the end of the year and the different shareholders were asked to come in and pay their share.

Q.—Can you say what date it was paid? A.—I think you will find it within the last 6 days of December, perhaps about the 26th or something like that.

Q.—Of December, 1898? A.—Yes.

Q.—I see in November, 1898, you have largely increased your holding of stock in the company? A.—Yes.

Q.—Have you any statement that shows how that was? A.—Yes, that was about the time.

Q.—How many shares did you acquire during 1898? A.—About 690.

Q.—In the months of November and December, 1898? A.—Yes.

Q.—And then in the beginning of 1899 you acquired a good many more? A.—Yes.

Q.—How many more did you acquire then? A.—I think altogether about 1,500 shares about the end of 1900.

Q.—Is that what you held at that time? A.—Yes.

Q.—Or did you acquire them at that time? A.—I had acquired down to that time.

Q.—Then you have been acquiring shares since that? A.—Very few.

Q.—How much have you acquired since? A.—I am not referring now to the last purchase, you know.

Q.—Not the new stock? A.—No. Of that stock that I had 1,500 then, I have really less now. I sold some to Mr. Gooderham. I think I have only 1,231 shares now.

Q.—And what have you of the new? A.—665.

Q.—Making in all 1,896 shares? A.—Yes.

Q.—And the total share capital of that company is what? A.—5,000 shares.

Q.—Of $100 each? A.—Yes.

Q.—So that you have in your own name at the present time 1,896 shares out of 5,000, and how many does Mr. Gooderham hold, or Mr. Gooderham's estate? A.—813.

Q.—And your brother? A.—14.

43rd day, June 20, 1906. Excelsior Life, (D. Fasken, Ex'd.)

Q.—I suppose it is fair to say that the Gooderham Estate shares would vote along with your shares? A.—I don't think it is fair. If it suited them they would vote just the opposite. They would do just what was in their own interest.

Q.—You think it cannot be said that your shares now represent a control of the company? A.—No.

Q.—Substantially there is control with the Gooderham shares and your own? A.—Yes.

Q.—And so long as relations remain as cordial as they are at present I suppose they might be expected to vote together? A.—No, I would not expect them if it were not their interest, nor would they expect me if it were not my interest to vote the way they wanted.

Q.—You have many interests in common with them, have you not? A.—No.

Q.—You think not? A.—No.

Q.—You think that is not a fair statement to make? A.—No. I act as their solicitor in a good many matters.

Q.—With emphasis on the good many. But outside of your professional work as solicitor you say there are not many financial matters that you are interested in together? A.—No.

Q.—You are referring now to the present time? A.—Yes.

Q.—Since when? A.—Well, since Mr. Gooderham's death.

Q.—With such a large holding, 1,896 shares in the capital stock, I suppose that for all practical purposes that means control anyway, does it not? A.—I have never had any reason to act differently than if I only held one share, so that it has never caused me any—

Q.—I am asking you first about control, not whether you have abused control. What would you say about that? A.—No, if the other two-thirds or whatever it is wanted to act in any way they could easily turn me down.

Q.—But it would be hard to conceive of circumstances where all the other shareholders would combine? A.—If I did anything wrong I would expect them to.

Q.—Are there any other shares in which you are interested? A.—No.

Q.—Have you any interest in Mr. Grass's shares? A.—No, none whatever.

Q.—He is also a substantial shareholder? A.—The shares I have given you are all the shares I have any interest in, directly or indirectly.

Q.—The policyholders in your company have no voting power at all? A.—No.

Q.—And there is no provision, expressly stated at any rate in your letters patent that give you the right to pass by-laws for that purpose, there is no reference to that subject at all? A.—No.

Q.—In some cases we find it is obligatory to permit the policyholders to vote and in others they are permitted to pass by-laws for that purpose. There is nothing in your Charter about that at all? A.—No.

Q.—Has that question ever come up for discussion? A.—No, never.

Q.—Would you approve of it? A.—I have not given the matter consideration. I don't see why they should not have a right, with the interests they have, I think it would be all right.

Q.—But you say there has never been any discussion of that at all by your company? A.—No.

Q.—Then that 6 per cent. call having been made, was that arranged in any special way so that the company would have the money available without waiting for each individual shareholder to send in his money? A.—The money was paid in to the company by cheque.

Q.—Whose cheque? A.—I paid it in.

Q.—Were you acting in concert with any other persons in paying that in? Or was it on your own responsibility? A.—It was paid in on my own responsibility.

Q.—Was it paid in to a special deposit the same as this $5,500 was? A.—No, the money parted from me and I had no control over it in any shape or form afterwards.

Q.—And the company assumed immediate control over it? A.—Yes.

Q.—And used it for investment or any other purposes that it chose to make use of the money for, the same as any other funds that it had? A.—Yes.

Q.—Did any person guarantee you with respect to the transaction? A.—No.

Q.—Did the company give you any indemnity? A.—No.

Q.—Did it transfer to you by a formal assignment the bonuses payable by other shareholders? A.—No.

Q.—How was that carried through? Did they pay their money to the company? A.—They paid their money

to the company. This is how it was carried through; I put up the money and then I had to look to the other shareholders. When the matter was explained to them I expected that they would recoup me and that is the circular that is referred to there; they are told that any of them who have not the money, that an arrangement is made with the bank, I made those arrangements with the bank myself, the company had really nothing to do with that whatever, they simply carried that on in that way and as their money came back I got credit for it.

Q.—Then does this represent an account of that matter, a statement sent to you by the company A.—That is evidently a statement. Yes, that is what it purports to be. I have no doubt I got it.

Q.—That statement starts with the initial payment by you on the 31st December, 1898, of $25,093 and it says "by amount advanced to the company by D. Fasken." Now was that a loan by you? A.—No.

Q.—It was a definite payment of the bonus? A.—Yes.

Q.—Without any special contract with the company or any formal assignment of monies that would be payable by other parties? A.—That is right. No contract or agreement or suggestion of any kind. I knew perfectly well that I was going to get most of it back again, because I knew a great many of the shareholders.

Q.—The larger shareholders had already communicated? A.—I knew they would pay.

Q.—I see the account computes interest on this money? A.—Yes, and it charges it also.

Q.—It credits the payments made. I suppose those would be payments made direct to the company? A.—Yes.

Q.—The statement shows the number of shares upon which the bonus was to be paid was 3,509, that was the number originally subscribed? A.—Yes.

Q.—And the number of shares upon which the bonus had been paid up to the date of the payment was 1,522. No. of shares held by stockholders other than Mr. Fasken upon which the bonus has not been paid, 640 shares. Then you had 1,347 shares that you had to pay the bonus on yourself? A.—Yes, I had paid it as far as that goes.

Q.—You had paid it on a great deal more than that. Then it says, Mr. Fasken holds 1,364 shares but the following has been transferred to him upon which the bonus was paid, E. Marshall 10 shares and J. Ferguson 7 shares. Prior to December and prior to this statement as early as November 14th, the first lot of transfers was made to you. Would you tell me the circumstances under which you got those shares on November 14th, 1898? A.—There were no special circumstances other than they were purchased.

Q.—Had you been trying to buy or people been trying to sell, or what had been occurring? A.—Well, about that time I think you will find in the newspapers there was all sorts of talk about this company being bought up by other companies and, of course, I know there was a party in Toronto here sending out and disturbing all our shareholders.

Q.—Trying to buy the stock? A.—Trying to buy the stock, no doubt for another company, and then Mr. Marshall went around and saw a number of them and I think Mr. Clarke saw some of them. The result was that they wished to get out, and any who did not wish to stay in we took their stock.

Q.—When you say "we" took their stock? A.—Well, I took most of it.

Q.—Who took any of it besides yourself? A.—I think Mr. Grass got some. I would not be sure.

Q.—Mr. Grass, I notice, increased his holding about that time. Any others? A.—Not to any large amount.

Q.—Then that continued apparently two or three years, your getting stock? A—Any person who wanted to put their stock on the market.

Q.—At a certain price? A.—At any price, they would send it in and if we saw fit to take it I took it. The object I had in buying after that, these small amounts, was that there would be no stock on the market, that we would not have any disgruntled shareholder.

Q.—Had you disgruntled shareholders at that time? A.—They were all afraid of what was going to happen.

Q.—Was that by reason of this bonus of 6 per cent? A.—No, what started them was these articles that were appearing in the newspapers, and people trying to buy their stock for another company. That is what started them, I think.

Q.—Can you show me any transfer that pointed to any other purchase besides your own at that time? A.—No.

Q.—You say it was thought by some and even mentioned in the press,

that some person was buying the stock? A.—Trying to get options on the stock.

Q.—Did it ever proceed so far as to get transfers of it made? A.—They did not get transfers.

Q.—Then there was no purchasing being done? A.—They did not get the opportunity.

Q.—Because you then decided to buy it yourself to prevent any persons being disgruntled? A.—And to prevent other people getting control, another company getting control.

Q.—At the time when you started into it, you only had 15 shares in the company with a cash interest in the company of /225. Was it to protect that investment? A.—I was satisfied that I would have a good investment by buying them. That is why I purchased.

Q.—You thought it was a good and prudent thing to do, to buy the stock? A.—Yes.

Q.—Was it at a certain rate? A.—No.

Q.—Did you authorize purchases at one level rate or did you make individual transactions? A.—I think they were mostly individual transactions.

Q.—Did you pay more than had been paid up on the stock? A.—In some cases I did.

Q.—In the majority of cases? A.—In the majority of cases I did not pay more than was paid up.

Q.—Are you speaking of the 15 per cent. or the 15 plus the 5 per cent.? A.—The 15 per cent. plus the 5.

Q.—So that in many cases you would buy at less than the $20 per share? A.—Yes.

Q.—As low as what? A.—I really don't know how much; 15 shares, Mr. Marshall tells me. What I remember about that is this. This was discussed with several, that we would not permit any slaughtering of that stock. It would not be good business policy to go and buy stock away down at 10 and that sort of thing because the stock could have been slaughtered. If you did you would spoil your company. I would have been buying stock that would be no use to me afterwards; that is why every person got par at least.

Q.—And no person got less than par? That is all the information I desire on that point. Was the purchase made by arrangement between you and Mr. Grass? A.—No.

Q.—Was Mr. Marshall, in seeing the shareholders, acting for you or Mr. Grass, or who was he acting for? A.—He was supposed to be looking after the interests of the company. I was not hunting for this investment, I could have made more money then and I could make more money now if I had never seen it, as far as that goes.

Q.—What I wanted to get at was as to whether there was any arrangement or understanding between you and Mr. Grass? A.—There was absolutely no arrangement between us, no contract or understanding of any kind.

Q.—You acted in concert, but that was all? A.—That was all.

Q.—And you commenced then to increase your holdings from November, 1898, and it is fair to say that since then you have been increasing them whenever a fair opportunity offered? A.—Yes.

Q.—Was there any stipulation at all at that time as to control? A.—None whatever; never has been.

Q.—There was no understanding that shares should be taken off your hands if you did not get a certain amount? A.—No, none whatever.

Q.—How many shares made default in paying the $6 a share? A.—I think I am out just a little over $400.

Q.—Are you out that or the company? A.—I am out that.

Q.—It has never been recouped to you in any way? A.—No.

Q.—And there is no understanding about commuted commissions? A.—No, there is no understanding of any kind.

Q.—Did you purchase the shares of any of the shareholders who were complaining about putting up the $6 a share? A.—No, I don't remember any of them complaining in that way. Some of them may have offered their shares when that was suggested.

Q.—When they were asked for the $6? A.—Yes, they may have done that, but I haven't that in mind at all, I haven't any recollection of that.

Q.—Who carried on the negotiations for the purchase of the stock? Did you do that or Mr. Marshall? A.—Mr. Marshall chiefly.

Q.—Will Mr. Marshall be able to tell us whether any of the shareholders were complaining about putting up this bonus and whether their stock was sold to you? A.—I suppose he would be.

Q.—He would know more about it than you would, probably. A.—Well, I don't know that he would know any more, because I would know everything that was being done in regard to every purchase I made.

43rd day, June 20, 1906. Excelsior Life, (D. Fasken, Ex'd.)

Q.—Then is it not a fact that you got stock at that time from shareholders who would not otherwise have sold, by reason of this demand for the $6 per cent. bonus? A.—You mean that they got frightened of it?

Q.—Either that they could not pay or got frightened. A.—If by that you suggest that any person was compelled to put up that 6 per cent., I say no.

Q.—They were asked to pledge their shares with the Bank of Toronto? A.—That was only an option. That was what they could do. That was simply to help them, anyone who could not do it and wanted to do that.

Q.—Was there any letter sent out except this one that I have read of a general character to shareholders? A.—You will have to ask Mr. Marshall as to that.

MR. MARSHALL: There are numbers of them. There are copies there. Those are practically the letters sent to all who had not paid.

MR. TILLEY: As the list would boil down you would keep sending new letters?

MR. MARSHALL: Yes.

MR. TILLEY: Then I think probably the best way is to read these letters and attach them all to Exhibit 239. A.—With regard to your suggestion about getting the stock in that way, I was advising them to hold on to their stock and they were always asked to hold on to their stock. There was no snap in the stock at the figures I was paying.

Q.—You refused to let some of them have it back at the price you paid? A.—I refused within the last year to one man to let him have it back.

Q.—Not longer ago than that? A.—I wouldn't think so. Mr. Marshall tells me it was about three or four years ago, one of them. I don't remember that.

Q.—Will you give me the name of the person you refused? A.—Dr. Urquhart.

Q.—You refused to give Dr. Urquhart back his shares? A.—Yes.

Q.—He was one of the directors? A.—He had been. But at the same time I offered him to take all my holdings if he wanted them and pay me the interest and that is open to him to-day too.

Q.—You offered to give him all your shares in the company at what you had paid? A.—And interest, yes.

Q.—This is the correspondence and would show fairly the attitude taken with these shareholders? The first letter is dated December 26th, 1899, and there are five others dated September 26th, 1900. (These letters were then read and filed as part of Exhibit 239.) That refers to the company's opportunities being good and expecting a good showing. Then another letter of the same date to another shareholder. One of the shareholders to whom one of the other letters is addressed (also filed as part of Exhibit 239.) It ends up by saying "if you are unwilling or find it inconvenient to make this payment and will let us know the least price you will take, we will endeavour to find a purchaser for you." Is that the tenor of the letters that were sent out? A.—Mr. Marshall says that was the tenor of them. I have not looked them up.

Q.—Then the balance you say amounting to about $400, you have not been recouped. A.—Not yet.

Q.—Do you expect to be by the shareholders. A.—I may.

Q.—Has there been anything done with a view to repaying to the shareholders this 6 per cent. as one letter mentioned? A.—No, and I never heard of that letter before.

Q.—That is new to you? A.—Yes, they will no doubt look or expect to get some return for the money they have paid in, but such a matter has never been taken up by the board or any person else. It is only reasonable to expect it.

Q.—It is not a debt owing by the company in any way? A.—Not at all.

Q.—It cannot be paid to them except by dividend? A.—That is the only way.

Q.—By a better dividend possibly and you have not started on the better dividends yet A.—Not yet.

Q.—Then the next change in the capital stock took place in the year 1904? A.—Yes.

Q.—Tell me just what change was made at that time? A.—We issued the balance of our stock.

Q.—Before that, 3,509 shares had been issued? A.—Yes.

Q.—Out of 5,000 shares? A.—Yes.

Q.—And the balance of the stock was then issued? A.—Yes.

Q.—Subject to a call and subject to premium? A.—Yes.

Q.—What call was made and what premium? A.—The new stock was issued on exactly the same terms as the old, that is 15 per cent. call, but it was sold at a premium of 50 per cent.

Q.—I will read the letter that was sent out to the shareholders regard-

43rd day, June 20, 1906.

Excelsior Life, (D. Fasken, Ex'd.)

ing that call. It is signed by the Secretary and dated the 9th November, 1904. (Letter read and filed as Exhibit 240.) Now why did you at that time issue new stock? A.—We were extending our operations at that time. We opened up in British Columbia and that requires capital.

Q.—I thought you spoke of the opening of British Columbia in 1893? A.—Oh no.

Q.—What had you done regarding the industrial business at this time? A.—We were letting it work off.

Q.—You were not pushing that business? A.—No.

Q.—Because I notice from the returns you sent in that you could not in 1904 atribute any need of new money to the industrial business? A. —No.

Q.—Because instead of proving a loss, by reason of your not spreading in that direction it was becoming of some profit to you? A.—Yes.

Q.—Then do you say that this new capital amount to $22,000 was necessary for entering into other Provinces? A.—Yes, and of course, we were writing, as you will see by that letter,—the proportion of business we were writing that year with previous years required capital.

Q.—You were expanding rapidly? A.—Yes.

Q.—And you decided that you would issue more capital—was it by reason of a fear of impairment of capital? A.—No.

Q.—You had got past that stage: there was no chance of the capital being impaired? A.—Of course we could have written less business and stayed out of British Columbia and there was no earthly chance of impairment, because it was profitable that way, but the whole question was we were extending our operations and spending our money and then where should that money come from? It would not be fair to take it out of the policyholders profits; it should be charged up to capital account and the stock issued for it.

Q.—Then do I understand that you could have gone on and enlarged the business as you did and used your accumulated profits or surplus in the business without having any impairment of capital? A.—We could have but we could not extend our operations and that sort of thing by doing that.

Q.—But you could have done it in that way? A.—Yes, but we could not have declared profits to policyholders and have spent our money in the other way.

Q.—You could not have declared profits to policyholders and also have spent large sums in new business? A.—Not without showing impairment.

Q.—You had reached a stage when to carry on your company and with proper expansion you were not driven for new capital were you? A.—No.

Q.—It was choosing a fund of new capital rather than a fund that you say the policyholders had an interest in? A.—Yes, you see we get very little out of that that would tell with the question of impairment. It was the premium part of it that would go towards that.

Q.—It would be 50 per cent. premium on the 15 per cent.? A.—Yes, $7.50, that is all that would go in that direction.

Q.—$7.50 on each share could go to preventing an impairment of capital, but that was not threatened? A.—No.

Q.—Then it was not necessary, we can put it that way, if you choose to use the money that you had, it was not necessary to bring in new money from the shareholders? A.—Oh no, there was any quantity of money always on hand.

Q.—And it was not necessary for the Government Return in any way? A.—No, that was not in our mind at all. This had been spoken of for a long time. Mr. Marshall was at it for several years, that it ought to be done.

Q.—These letters would indicate that there would be no further necessity for extra money? A.—But Mr. Marshall's contention always has been that we ought to have all our capital issued and ought to have more capital to give the company a better standing. Those letters do not deal with that.

Q.—It was put in this way, "It is not expected that any further demand will be made on the shareholders, on the contrary we believe that we will commence paying dividends on the stock? A.—This is not that. This is a sale of new stock, it is not a call on the stock.

Q.—But the old shareholder was given his option to take his proportion and if he did not, what happened then? A.—Then it was divided up again among the shareholders.

Q.—What shareholders? A.—Those who did wish it.

Q.—So that stock that was not taken by shareholders was offered to

43rd day, June 20, 1906. Excelsior Life, (D. Fasken, Ex'd.)

all shareholders who were taking it, or just to certain of the shareholders? A.—There was no exception made in that. I wished to have one of our managers at Winnipeg, interested more in the company than he was. You will notice that he had quite a holding and I asked him to take more. He increased his holding.

Q.—What did you do? A.—I took my own shares.

Q.—You took what was properly allotted to you? A.—Yes.

Q.—Did you take any more? A.—No.

Q.—Did any shareholder at that time or any director increase his holding out of proportion? A.—No, not out of proportion at all. Nobody was biting at paying 1½ on a 7 per cent. investment which returned a little over 4 per cent.

Q.—Had you any paying dividends at that time to shareholders? A.—Yes.

Q.—How long had you been paying dividends? A.—We paid them since about 1901.

Q.—And at what rate? A.—6 or 7 per cent. 7 per cent. now I think it is.

Q.—6 per cent. then? A.—Yes.

Q.—Could not that money have very well stayed there to be used for expansion? A.—That would not have been good business policy. You would have had all your shareholders disgruntled.

Q.—Not the largest ones? A.—That makes no difference. It is the other fellows who count. They can do the talking out through the country where you are carrying on your business, and their money was there, and they ought to have their dividends.

Q.—They ought to have some return on their money? A.—Certainly. They had waited long enough for it. The shareholders down to date haven't got 2 per cent. on the money they put in. They didn't get a dollar for about eleven years.

Q.—You have put in a table in your returns showing what one per cent. on the capital of the company would be from the commencement of the company down to date, and it shows that the dividends that have been paid since 1901, the first year that a dividend was paid, commencing then with $2,969 being used for dividend purposes, that the amount actually paid to the shareholders averages a little more than one per cent., between one and two. A.—Yes, I thought it was nearly two per cent.

Q.—1.28 per cent. from the date of organization. That is what the average return on the money would be to the shareholders? A.—Yes, that is all they got.

Q.—But there is nothing in your charter in any way to limit the amount that may be paid to your shareholders? A.—No.

Q.—You are not restricted as to your division of profits between shareholders and policyholders? A.—No, the policyholders have nothing to complain of because they got their dividend in the first five years and they have been paid right straight along and the shareholders have stood out.

Q.—We will take that up a little more in detail when we come to that part of the work. Then you say that by reason of that increase of shares that your holding has not increased except as it should progress? A.—That is my recollection.

Q.—That concludes all that you have done by way of changing your capital stock since the company was first organized? A.—Yes.

Q.—Do you still think more capital would be better, or have you now all the capital that you think the company requires? A.—We have all the capital the company requires to go along and do a certain amount of new business each year.

Q.—If you wanted to expand rapidly? A.—Then you should have more capital.

Q.—The money must be spent if you want to expand? A.—Certainly.

Q.—And it is either a case of using monies which might in the interval go to policyholders or else using money of shareholders which ultimately makes a larger share in the company's assets which is allotted to shareholders? A.—Yes.

Q.—Your investments have been mainly of what kind? A.—Real estate, with the exception of bonds that we have had to put up with the Government, and of course loans on our own policies.

Q.—I believe that loans on the company's policies are looked on as the safest sort of investment for the company. A.—They ought to be the safest.

Q.—There never is any loss on those? A.—Never can be.

Q.—You never make a loan on a policy until there is an actual surrender value in the policy? A.—Certainly not.

Q.—That rule has never been departed from in your company? A.—No, we have taken no chances.

43rd day, June 20, 1906. Excelsior Life, (D. Fasken, Ex'd.)

Q.—Then except for the securities the Government required you say you have loaned on real estate. A.—For what the Government requires we have put up either Municipal bonds or Government of Newfoundland bonds. Our other investments are mortgages on real estate.

Q.—Have you ever had any stocks or bonds in railways? A.—No.

Q.—Or call loans? A.—We have not invested a dollar in stocks, bonds or anything of the kind.

Q.—And never loaned to brokers on such classes of securities? A.—No, we have absolutely confined ourselves to real estate investments.

Q.—Did you do that because you believed real estate investments to be yielding a better return, or because you thought you were in the nature of trustees and should comply with that Act? A.—In the first place, I thought that our Charter would call on us to invest the same as trustees. Then when we went into the Dominion we had the power, I suppose, I don't know whether we had or not.

Q.—Have you considered that question? A.—It was considered in the office but I did not consider it. I think they came to the conclusion that we had the power. However, we did not change our policy of business because I think I know more about loans on real estate than I do about loans on stock.

Q.—Probably it is by reason of your large knowledge of the latter that you have left them out. A.—Perhaps you are right.

Q.—What rate of interest have your investments returned to you? A.—About 5 per cent. odd. That is taking them, I understand, over the whole period. Last year it was over 7, I think.

Q.—In the year 1905 over 7 per cent? A.—Yes. 5.48 is the average.

Q.—Could you tell me anything exceptional in the last year that made the rates so high? A.—We have been getting better rates recently because our funds are out in Manitoba and the North West. We are paying a man a good salary there to look after our investments, and he is a very good man and you don't get anything less than 7 per cent. there hardly, you know. We get 7, 8, 9 and as high as 10 on some.

Q.—Do you think that it would be proper to restrict insurance companies to trustee investments? A.—Oh I think that with large funds like some of these companies have, they ought to have more latitude.

Q.—Broader powers? A.—Yes, I think so. We don't need them with the amount of money we have on hand, we can get plenty of investments.

Q.—There have been some transactions where your company has loaned from Mr. Gooderham, have there not? A.—In the sense that he has got the benefit of Mr. Harvey's services at Winnipeg.

Q.—I have it that in certain years certain mortgages were transferred by your company to Mr. Gooderham? A.—We sold them to him, but we did not make any profit out of that other than a charge for the attention we had given it.

Q.—Do you know on what basis that was charged? A.—I inquired up at Osgoode Hall what was allowed on trustee investments and that sort of thing and fixed it about on that basis.

Q.—With Mr. Gooderham? A.—Yes.

Q.—That would cover Mr. Harvey's services too? A.—Yes, cover everything.

Q.—Would Mr. Gooderham's money pass through your company in making the loan? A.—I generally sold him a batch.

Q.—You would make mortgages and get the mortgages in your possession and sell them to Mr. Gooderham? A.—Yes, we sold a number that way.

Q.—Who would have the selection of the mortgages? Mr. Gooderham, I suppose, if he was buying them? A.—No, there was no selection. He took them as they came in, that is one after another on a whole line. If there were 100 mortgages he might take over twenty to forty, but he got no choice.

Q.—Did Mr. Harvey know he was lending for Mr. Gooderham? A.—He didn't know for whom they were at all.

Q.—Has any other person had transactions such as that through the Excelsior? A.—No.

Q.—Would that be done when the Excelsior still had money to invest? A.—Not at all. When we had not money to invest we got it from him; it was accommodation to us to get it and he was glad to get the investments as far as that goes, of course, but it was accommodation to us to get it, that is it was a benefit to us.

Q.—Would you explain how it could be a benefit to you, other than the money you would make from him, and you would be out of the investment between the time you would get the

43rd day, June 20, 1906. Excelsior Life, (D. Fasken, Ex'd.)

money from him and the time you would re-invest it? A.—No, that is what we did not do. We were never out of funds; we always kept an overdraft in the bank, so that when loans would come in there would never be a time when money would be lying idle in the bank. We would always try to keep it out in investments.

Q.—Then this would be at a time when you had over invested, so to speak, and had an overdraft in the bank, that this cheque would come in and be credited to the overdraft? A.—Yes, our object with the bank is simply that we shall not have idle funds.

Q.—Is that going on now? A.—No, that is stopped. It stopped last year.

Q.—But you cannot stop the overdraft? A.—Yes, unfortunately we did. A month ago. That is, we had not enough investments to cover the money on hand. We try that that shall not occur. I am told it was two or three years ago that that was stopped with Mr. Gooderham.

Q.—Can you tell why that was stopped? A.—No reason.

Q.—There was no particular advantage in it for the company or Mr. Gooderham? A.—That is so.

Q.—It was a mutual advantage; but not very much to either one in particular? A.—No.

Q.—The other matters I have to take up with this company I will take up with Mr. Marshall. He has been with the company all the time and can speak of the insurance end probably a little better? A.—Yes.

By MR. GEARY: Q.—In speaking of the extension of your business and the cost entailed by that, do you refer to the cost of establishing the branches in the other Provinces? A.—Yes.

Q.—Over and above the commission? A.—Oh yes. If you enter a new territory, for example we started in British Columbia, we pay that man $250 a month and he starts in to organize the territory. He has got his office and all that sort of thing and before you get hardly any return you have expended quite a little bit of money.

Q.—And you have paid that out of your increase? A.—Certainly, we were paying that as we were going on.

Q.—In extending ordinarily in Ontario? A.—That is a similar matter.

Q.—The increase in cost would be only the first year's commission? A.—You simply send an inspector out from the office.

Q.—Have you covered practically the whole of this Province? A.—Pretty well in every part of it.

Q.—Do you consider that you can get no further business out of Ontario, no further volume? A.—Oh! we can get more, I think with a little better organization. We are doing our best to get that.

Q.—Introducing a better organization? A.—As fast as we can. Changing all the time you know.

Q.—At the time you went into British Columbia you were not considering increasing your organization in Ontario? A.—Oh no, all we are doing in Ontario is simply developing, not any special line.

Q.—But you think you have to perfect your organization here? A.—I think it could be better than it is.

Q.—At no increased cost?—A.—Oh, no.

Q.—In regard to investments in mortgages, one matter I was asked to speak to you about. When you are handling a mortgage and doing the insurance as mortgagees, is there any percentage of the fire insurance premium that is retained by the company? A.—No.

Q.—They having a fire insurance office in close connection with the business of mortgaging, you place the insurance in that fire insurance office, and do you ever get a commission, is there any deduction made from the regular rate, through having the amount of fire insurance business that you have? A.—We did have an arrangement at one time here. We have none now that our loans are nearly all in Manitoba.

Q.—You got a special premium? A.—Yes.

Q.—Was the whole premium properly chargeable, charged to the mortgagor? A.—I don't know. My recollection is that there was only about $75 in the whole thing, and then it was stopped.

Q.—The difference in your special rate on your whole volume of business was only about that? A.—Yes.

Q.—And you don't know whether the company got the benefit of that or the mortgagor? A.—No, but at the present time all our mortgages are in Manitoba and I know of no such arrangement. I don't think there is.

Q.—Could you find out what the company profited by that arrangement you speak of, and let us have

43rd day, June 20, 1906.

a statement of that? A.—I will try and find out if I can.

Q.—In regard to the cost of procuring real estate mortgages, you pay a percentage, I suppose? A.—Certainly.

Q.—And is it an annual inspection of the properties? A.—Yes, there is an annual inspection.

Q.—How does the cost of that procurement of the business and of inspection compare with the cost of brokerage in making investments on bonds? A.—You cannot make any comparison.

Q.—There is a substantial expense of course? A.—Oh, certainly.

Q.—How do you find your loans on real estate investments? A.—We have never lost a dollar neither in this Province nor in Manitoba, nor the Northwest. We have never lost one dollar on our investments.

Q.—Were you concerned in the organization of the company that was first put out? A.—No.

Q.—You don't know how they procured their first staff of agents? A.—No.

Q.—Or how they procured men to go on their directorate? A.—No.

Q.—Or whether there were any insurances to directors? A.—No, there were not. I would know if there were. There was nothing of that kind or I would have heard of it. I certainly got none.

MR. TILLEY: Mr. Grass mentions to me, Mr. Fasken, that he always regarded it as of advantage to your company to make these loans which Mr. Gooderham would take, because there was a certain amount of life insurance got in connection with loans in the Northwest? A.—That would be an advantage I suppose.

Q.—The life insurance that you would be able to make in that way. Who values the properties out there for you? A.—We have valuators all over, and then we have Mr. Harvey who goes all over the properties.

Q.—Does Mr. Harvey get a salary or commission? A.—Salary only.

Q.—Supposing he makes a loan on real estate and gets a life insurance policy as well? A.—Mr. Harvey has no interest in any shape or form in a loan policy or anything else. He purely has his salary and whether a loan goes through or does not go through, a risk goes through or not, he gets nothing, it is of no interest to him whatsoever, it is purely salary.

Q.—Is there any commission paid on such a policy of insurance? A.—

Excelsior Life, (D. Fasken, Ex'd.)

In certain cases there will be, and in certain cases there will not.

Q.—To whom would a commission be paid in such a case? A.—Probably to the agent who brings the risk.

Q.—Is it ever paid to any person else? A.—Not that I know of.

Q.—Are there any commissions paid to persons in the head office with respect to such business? A.—No. In respect to which?

Q.—In respect to life insurance policies that are written either in connection with loans or in any other way? A.—Well of course Mr. Marshall here, he has the right, and every policyholder and every shareholder has the right if they bring business in to get a commission on it.

Q.—I am speaking now of policies written where no agent brings them in at all, but as the result of your loaning system? A.—No, nobody gets anything out of that kind of thing at all.

Q.—The President does not anyway? A.—No, nor the Manager. He never gets it. I see every dollar he gets, and he gets none of it.

Q.—There is no deduction made from such a premium at all? A.—None whatever.

Q.—Do you get many policies where the company gets the full premium? A.—No, the business is generally sought after. We get some, but it amounts to nothing.

Q.—Notwithstanding all the loaning business you do, and all the policies you get in connection with it, there is no volume in the business on which a premium is not paid? A.—We don't get much loaning business, our loaning is all up there.

Q.—One would think that there would be a large volume of business if you write policies along with the mortgage, and that there would be a large volume of business where you would not have to pay commissions? A.—Our commissions are lighter, but our expenses on inspection are very much heavier. Mr. Harvey is travelling that territory nearly all the time and it is very expensive.

Q.—He passes on the securities? A.—Yes.

Q.—And if any person brings a loan to him do you give that person a commission? A.—Yes.

Q.—And if there is a policy do you give him a commission on the policy? A.—Mr. Harvey will make the best arrangement he can with him.

Q.—Can you say what volume of insurance you write in a year in connection with mortgages? A.—No, I

43rd day, June 20, 1906. Excelsior Life. (E. Marshall, Ex'd.)

cannot. I could find that out for you. About $100,000 I am told.

Q.—About $100,000 each year? A. Yes.

Q.—And on the most of that, notwithstanding that Mr. Harvey is on salary you have to pay a commission to some person on the transaction? A.—Sure, because he is not instrumental in bringing it in.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 p.m., June 20, 1906.

EDWIN MARSHALL, sworn, examined by,

MR. TILLEY: Q.—You are the Manager of the Excelsior Life? A.—The General Manager.

Q.—How long have you been General Manager? A.—Since Mr. Kenny retired from the service of the company.

Q.—What date was that? A.—Since February 13th, 1900.

Q.—Since that you have been the Manager? A.—Practically.

Q.—Before that for some time you were carrying on the duties of Manager? A.—No, I have only officially had the title of Manager since the first of the year.

Q.—You were telling me the time from which you have been discharging the duties? A.—Yes.

Q.—But you only had the official position for a few months? A.—Since the first of this year.

Q.—How long were you Secretary? A.—25th August, 1891.

Q.—And prior to that were you with the Excelsior? A.—Yes. I entered the service of the company in June, 1890; I was instrumental in placing the greater bulk of the stock.

Q.—That is the way you first became connected with the company, in placing the stock? A.—Yes.

Q.—Has the company any actuary? A.—No, I have some actuarial knowledge; I have never written for the examination, though I have been a student of the British Institute of Actuaries, but I have never written the examinations, I have never had the opportunity.

MR. KENT: Do you remember if it was very easy to get stock subscribed at that time? A.—Well, at that time I imagine very much easier than it is now, because there were not half as many companies in the field; there are more younger companies doing business in Canada to-day than there are older.

Q.—I would like you to give me an idea of what the inducements were that were held out? A.—One inducement would be of course the career of other Canadian companies and their successes.

Q.—The Canada Life for instance? A.—Yes, the Confederation Life and the British companies, and other Colonial companies; I think they were shown their experience.

MR. TILLEY: That is what you would have said to His Honor if you had been trying to sell him stock at that time. What could you say now? A.—I could say a little more about it now. From a shareholder's standpoint they have to make a great deal of sacrifice.

Q.—Is it fair to say that it is not looked upon as being one of the things that a person goes in for merely investment purposes? A.—The shareholders have either to put up premiums or bonuses on their stock in order to insure the success of the company.

Q.—They have to pay in money besides the dividend earning fund? A.—Yes, and there has to be the greatest economy practised in the office, because that is the only place where you can practise it, because you have to pay the same as other companies.

Q.—You say in the head office management you have to economize? A.—We have always done.

Q.—You would say the Excelsior has economized? A.—I do not think a company with regard to its officers can show it practised greater economy than we have.

Q.—You distinguish between the economy a company can practise with respect to its head office management from the economy that can be worked out with regard to the field work; why do you do that? A.—Since I have been connected with the company there has been a marked increase in the remuneration we have had to pay our agents; up to nine years ago we had no agents in our employ that were getting over 55 per cent. graded.

Q.—That is 55 per cent. would be the highest commission paid on any plan? A.—Yes.

Q.—On what plan? A.—Ordinary life.

Q.—Where the payments would be twenty payments or over? A.—No, all life payments; 50 per cent. for twenty payments.

43rd day, June 20, 1906. Excelsior Life. (E. Marshall, Ex'd.)

Q.—To what extent has that advanced since that time? A.—To our District Managers and Provincial Managers we have to give now as high as 75 per cent. grading.

Q.—Of the first year commission; what about renewals? A.—7½ per cent. is the highest we ever did pay; we are bringing that down to 5 and 6 on all new contracts we are making.

Q.—On the old contracts it is still 7½; is that 7½ in the case of your company continuous throughout the premium paying life of the policy? A.—During the agent's engagement with the company.

Q.—During the time the agent remains with the company? A.—Yes.

Q.—And then if he leaves the commission ceases entirely? A.—The commission ceases entirely.

Q.—Have you any contract with an agent in your company that his commission will extend beyond his service with the company? A.—No, we did have one contract where it continued beyond a period not more than 5 years, but that has been terminated.

Q.—Have you had agents leave you who have been with the company for some years getting these renewal commissions? A.—No.

Q.—You never had that experience? A.—No.

Q.—Can you say whether in insurance business it is looked upon as the agent's right in such a case, not legal right, but moral right, to get some consideration when he leaves the company by reason of these renewal premiums which he ceases to enjoy? A.—That would depend a great deal on what he received during the first year in my judgment. If the terms of his commission for the first year—some companies for instance pay 50 per cent. the first year and 10 or 20 per cent. on the renewal.

Q.—On the first renewal? A.—On the first renewal, and 10 on the second renewal, and about 7½ on subsequent renewals.

Q.—They grade it? A.—Yes.

Q.—In such a case as that would the agent by his contract have a right to the renewal after he leaves the company? A.—I think he would, but we have never issued such contracts. We have an agent in our employ to-day who has claimed and obtained compensation from another company under a contract such as I specified.

Q.—A contract where he was entitled after he left to get some commission? A.—Yes.

Q.—I do not want you to consider that sort of contract at all; I want you to consider a contract where when the relationship terminates— A.—That is a case.

Q.—Is it looked upon as being the usual thing for companies when they terminate their relationship and are not bound by their contract to pay renewals, that they go on and give the agent some bonus when he is leaving? A.—No, I do not think that is ever done.

Q.—It has been said that all reputable companies, when the agent leaves them, even although he may not be strictly entitled to anything, that there is something allowed him? A.—I have no personal knowledge unless it be one of the stipulations of the contract.

Q.—So far as your experience goes the insurance companies like other employers adhere to the contract they made with the agent? A.—Under the terms of our contracts agents' interests in renewals cease with the closing of the engagement with the company.

Q.—Do you know of any company that has the same sort of contract, and when the agent leaves them it gives him something by way of bonus or good will? A.—No, because we consider in paying the high rate of commission they commuted their renewals.

Q.—That is what I thought, that by reason of the high commissions that are paid while the agent is with you you do not feel there is anything owing him when he leaves? A.—We pay their services as they obtain the business.

Q.—You say the Excelsior has endeavored to keep down its head office expenses? A.—Yes.

Q.—That applies, I suppose, particularly to the managing director's salary? A.—Well, that is not troubling me very much, the amount involved in that.

Q.—It is not extravagant; I see the President, Mr. Fasken, draws $2,000? A.—Yes.

Q.—How long has he been drawing that? A.—I think it is about four years.

Q.—Prior to that what was drawn by the President? A.—$1,000, I think it was for two years, and prior to that he did not get anything except his director's fees.

Q.—I suppose Mr. Fasken devotes a good deal of time to the business of the company? A.—Yes, he is daily in attendance at the office.

43rd day, June 20, 1906.

Excelsior Life. (E. Marshall, Ex'd.)

Q.—Is the work he does in that way charged in any way in solicitor's bills? A.—No.

Q.—I see that there is an annual allowance of $300? A.—$300 we pay our solicitors.

Q.—That covers all the general advice? A.—Yes, every matter except litigation.

Q.—What are the director's fees that are allowed? A.—$5 for each meeting of the Board of Directors and $3 for meetings of the Executive Committee.

Q.—Dr. Ferguson I see is allowed $1,200? A.—Yes.

Q.—Besides the director's fees? A.—Yes, and examination fees.

Q.—Does the company pay his examination fees? A.—Yes.

Q.—Can you tell me what they amount to in a year? A.—I think last year they amounted to somewhere between three and four hundred dollars.

Q.—Is that as medical referee or medical examiner? A.—No, medical examiner.

Q.—Is he also the medical referee? A.—Not on his own risks, not on the risks that he examines.

Q.—But he is on other risks? A.—Yes.

Q.—Who is the referee of risks he examines? A.—Dr. Ross largely.

Q.—What does Dr. Ferguson get as medical referee? A.—$1,200.

Q.—$1,200 covers all that? A.—Yes.

Q.—And he does some original examination? A.—Yes, for which he is paid in addition.

Q.—What fees are allowed for examination in your company A.—In the city here $3.

Q.—No matter what the amount of the policy is? A.—No matter what the amount is.

Q.—Have you any limitation on the amount of policy your company will issue? A.—No, we have a limited amount we will carry.

Q.—You will re-insure for over how much? A.—Over $7,500.

Q.—That I suppose has been gradually increased? A.—Yes from $3,000.

Q.—Up to $7,500? A.—Yes.

Q.—What other director, if any, gets any special remuneration beyond his director's fees? A.—None.

Q.—Just the President and the doctor? A.—Yes.

Q.—Are you a member of the Board? A.—No.

Q.—Is there any Vice-President of the company? A.—There are two.

Q.—Who are they? A.—Mr. S. J. Park, of Owen Sound and Mr. Ruliffe Grass, of the City.

Q.—Are they paid anything? A.—No, except their director's attendance fees.

Q.—Other than yourself what is the highest salary that is paid in the head office? A.—$100 a year to the Secretary-Treasurer

Q.—I suppose there is no other large salaried person in the office? A.—No, not in the office.

Q.—What is the next salary to yours in amount? A.—In the office?

Q.—Yes? A.—$1,000.

Q.—And all other salaries are lower than $1,000? A.—$900—

Q.—Yes; I have gone over them. I do not think there is anything that needs to be commented on, except that has been the effort of the company in the head office, to keep down these salaries; you say you cannot carry out the same economy in the field; I suppose that is by reason of the competition you meet from other companies? A.—Yes.

Q.—Do you blame any particular class of company for the larger commissions paid? A.—Well, in my experience we have met with more competition probably from the American companies; they have given higher commissions.

Q.—Do any companies that you know of give over 75 per cent. of the first commission and 7½ per cent. on renewals? A.—Yes, I have a policy with the first year premium free.

Q.—You got one? A.—Yes.

Q.—That is where you got a full rebate? A.—Yes.

Q.—You got that yourself? A.—The entire first year's premium.

Q.—Since you have been in the Excelsior? A.—Yes.

Q.—So that you do not object to taking rebates? A.—No.

Q.—Whatever you do about giving them? A.—We discourage them in every possible way.

Q.—But if they are bound to give them you would prefer they would be given to you than any person else? A.—Within a profitable limit.

Q.—Does your company allow its agents to give rebates and then compensate the agent because he has given a rebate in any case? A.—No, they are allowed to pay sub-agents, and we have to have a knowledge of certain commissions being paid out at the time the application is received, if it is not satisfactory we return it.

Q.—Do you employ any of your agents on salary? A.—Yes.

43rd day, June 20, 1906. Excelsior Life. (E. Marshall, Ex'd.)

Q.—I notice a resolution in your minutes, or a discussion, as to the inadvisability of having agents paid on salary? A.—We have to do that in new districts.

Q.—To do what? A.—Pay salaries.

Q.—But you discourage it? A.—Yes.

Q.—Why do you discourage salaries—we have had some evidence that it is a good feature? A.—Our experience is when an agent is on a straight commission basis he is less apt to make a rebate.

Q.—You think where the agent gets a commission he is less— A.—Where the money is coming out of his own pocket he is less apt to make a rebate than if he is being paid a salary.

Q.—How I understand you to put it is this: if the agent is paid by salary the rebate is given, but it comes out of the company? A.—Yes, it comes in as a rebate, the same as if he would pay a sub-agent.

Q.—So that where an agent is on salary it does not preclude him from allowing the applicant a rebate? A.—No.

Q.—But if a rebate is allowed, that is one of his expenses allowed to him? A.—Charged against the business of his agency.

Q.—You have some men on salary now? A.—Yes.

Q.—From all these men you do receive information as to the rebates they are allowing? A.—The information slip comes in with the application indicating the amount of commission that is payable out to sub-agents, and if it is satisfactory we pass it, if not we refuse.

Q.—Is it always put in the shape of a sub-agent payment, or is it not sometimes put as rebate? A.—We do not know whether it is rebate or not, in a great many cases.

Q.—Is it a form you require to be filled in? A.—Yes.

Q.—What language do you use in the form that calls for the disclosure of that item? A.—In some cases the commission may be payable to a party who is not under contract, he may have been called a spotter, and introduced the risk to the general agent.

Q.—Then he would get a commission? A.—He would get the commission.

Q.—But for that policy he would be called a sub-agent? A.—Yes.

Q.—Your form of return would show a payment to him? A.—Yes.

Q.—How is it described in the return? A.—Commissions payable out.

Q.—That is a column or an item in your return? A.—In our monthly report form.

Q.—Then a rebate would come under that same head? A.—Exactly.

Q.—You have no column in your report that you distinguish between what is paid to sub-agents and what is allowed to the insured himself? A.—No, and it is very hard to discriminate between the two.

Q.—Why? A.—Because we do not know in a great many cases.

Q.—The agent would know? A.—He may get that business from one of his sub-agents.

Q.—He would know how he treats it, he would know whether he pays it to the sub-agent or whether he allows it to the insured? A.—The sub-agent gets 50 per cent. commission, but he may allow one-half of that to the insured, and the general agent has no knowledge of it.

Q.—Where your agent allows a sub-agent 50 per cent. then he would show in his return 50 per cent. allowed sub-agent, and he would not say anything at all about rebate, because he has not paid the rebate, but there are many cases where he allows the rebate himself? A.—Yes.

Q.—That comes in your return in the same way, representing an item paid to sub-agent, although in reality it is a rebate? A.—Yes.

MR. LANGMUIR: If a rebate is paid direct by an agent to an applicant does that show in the return—

MR. TILLEY: That would be shown in the column which is headed "Amounts allowed to sub-agents"

MR. LANGMUIR: But you do not know whether it is a sub-agent or not, it may be fictitious? A.—No, we check the original application, we check the report with the application.

MR. TILLEY: How can you check the original application with that? A.—We always do that, we have a commissions register.

Q.—Does the check show whether there was a sub-agent— A.—No, there would be no discrimination as to the mode of treatment, as to whether it would be a rebate or sub-agent.

Q.—You have no method in your office of determining whether a particular allowance made to John Smith was in reality a payment made to a sub-agent who introduced Smith or whether it was an allowance made direct to Smith? A.—That is it.

Q.—And probably you think it best not to know, is that right?

MR. KENT: I suppose you never call a spade a spade in that connection? A.—We are conscious of the

fact that there is a great deal of rebating, and we do all in our power to discourage it, and where it is a question of getting business at a reasonable cost whether we pay a rebate or not we will get it.

MR. TILLEY: Tell me what you have done to discourage it? A.—I know a case quite recently where we refused a risk because we were asked to pay the same rebate as another company was willing to pay.

Q.—That particular rebate was too high? A.—Yes, and we have forbidden it in a great many cases.

Q.—Paying too high? A.—No, forbidden an agent to rebate altogether.

Q.—Can you say any particular agent of your company has ever been told he must not give a rebate? A.—Yes, we have told agents that.

Q.—Unless compelled? A.—No, I know of one or two cases where that has been said without qualification.

Q.—That is rather exceptional? A.—Yes, but there were unusual circumstances; we knew it was not necessary in that district.

Q.—You thought it was a sort of virgin soil and it should not be spoiled by rebates? A.—Yes.

Q.—Does that state as fully as you can state what you have done to stamp it out? A.—I think so; I might say we have discouraged it in every way we can.

Q.—I would like you to tell us what you have done? A.—Where we know a business is not being written in competition with another company where a rebate has been offered we think it is unnecessary.

Q.—What you do is, do not pay out more than you have to, but pay out as much as you have to to get the business? A.—Yes. We endeavor to get it as cheap as we can.

Q.—I suppose that applies particularly to where the rebate comes out of the company? A.—Yes.

Q.—If the rebate comes out of the agent's pocket, out of his 75 per cent., I suppose you do not concern yourselves with that at all? A.—No, but from my own observation I should say that there is less rebating done when an agent is on a strict commission basis.

Q.—Where is your largest and best agent who is paid on a commission basis, is it inside of Toronto, or outside of Toronto? A.—Outside of Toronto.

Q.—You have him in mind? A.—Yes.

Q.—Can you say approximately what his income would be from writing insurance if he got and kept all the commissions you allowed him? A.—Would that apply to first year or renewal?

Q.—Everything he would get? A.—It would range between $1,000 and $2,500 a year and $3,000 a year.

Q.—Is that all your best agent would get from commissions if he kept the whole of it? A.—No, I do not say if he kept the whole of it.

Q.—If he kept the whole of it—

MR. LANGMUIR: What he would receive net to him? A.—You mean put Mr. Harvey, the Manager, on the same basis as anybody else?

MR. TILLEY: He is paid salary? A.—Yes.

Q.—Take your best commission agent? A.—Those figures I have given you are approximately correct.

Q.—We have not considered it proper to ask as to what you pay individual agents as yet, because we have thought that private information of the company, but what I want to get you to do is just this, you have in your mind the agent that gets the most from you, and then tell me what his whole gross premium commission income would be for a year? A.—The first year?

Q.—Yes; renewals and everything, that he would get in the year if he got everything he was entitled to? A.—At present it would range between $1,000 and $3,000.

Q.—Do you mean to say your best agent, taking all the insurance he writes in a year, and pay him we will say at the rate of 75 per cent. on his first year business, and with all his renewals that his total income would be $3,000? A.—Yes.

Q.—Do you know how much he really gets out of that $3,000? A.—It would not range perhaps over eight or nine hundred dollars, he would probaby have to give away one-third.

Q.—Not more than that? A.—To sub-agents, of course he would give more in individual cases, but I am taking an average.

Q.—You think about one-third off that? A.—One-third to 40 per cent.

Q.—Is he a person that employs sub-agents? A.—Yes.

Q.—Who are regularly appointed by the company as sub-agents? A.—Yes.

Q.—Has them working under him? A.—Yes.

Q.—An agent that insures himself and does not have sub-agents, what would be the most he would make if he kept all his commissions in a year?

43rd day, June 20, 1906. Excelsior Life. (E. Marshall, Ex'd.)

A.—That is a pretty difficult question to answer; there are some agents that are very good at getting business personally, others that are more successful in getting business through sub-agents.

Q.—I suppose after all the best person to get that sort of information from is the agent? A.—I think so.

Q.—That is the view we have taken so far? A.—We have no means of ascertaining what they do pay.

MR. LANGMUIR: What proportion does the salary paid bear to the average commission earned; is the salary you pay based upon some ascertained information that the man would earn on commission? A.—Yes, a great many of our contracts are ranged on the basis of a commission with a guarantee on account, that is in new districts, sufficient to give them living expenses.

JUDGE MACTAVISH: That is guaranteed? A.—Yes.

MR. TILLEY: I notice in your contracts you provide in a great many cases for money to be paid monthly to the agent in advance? A.—Yes.

Q.—That is on account of his commission? A.—Yes.

Q.—He is a commission agent? A.—Yes.

Q.—And ultimately he is paid on commissions, but that is advanced on account of what he will earn. You have a clause in the contract showing under no circumstances is that to be treated as a debt due to the company and there is no right in the company to get it back; tell me why that clause is there? A.—Those contracts, we treat those as salaries —

Q.—Why do you put that in, is that to avoid something owing by these people to the company? A.—No, all those contracts are treated as straight salary; where an agent is required to return the advance it is so marked in the contract; you will notice a number of them that way.

Q.—But the majority of them have that clause in? A.—We put that clause in as straight salary contracts; it is in our book-keping.

Q.—I will take a case here; there the scheme of commissions sets out on ordinary life 75 per cent.? A.—Yes.

Q.—On life, payment of premiums limited to from 20 to 34 years, 70 per cent.; life, payment on premiums limited to 15 years, 65 per cent.; life, payment of premiums limited to 10 years 60 per cent.; life, payment of premiums limited to 5 years 50 per cent.; single premium plan 5 per cent., and renewal premiums with-profit plans six per cent.; that is the schedule for that particular agent, and I suppose that is a fair schedule? A.—That is a fair schedule of our Provincial or District Managers.

Q.—Then below that is this clause: "All without-profit plans except term plans only one-half of the commission allowed on with-profit plans will be payable on the first year and renewal premiums," so that where it is non-participating policy the agent gets only one-half the commission? A.—Yes.

Q.—I suppose that is all you need to tell the agent as to which kind of insurance you wish him to get? A.—Yes.

Q.—That is a straight commission contract; here is the clause that is in this agent's contract: "The company agrees to advance to the said agent at the end of each month the sum of $90 on account of commission as under clause 9; the said agent shall not be required to return any portion of the said advances, whether same are covered by commissions on business written or not. The company, however, reserve the right to discontinue the payment of said advances by giving thirty days' notice in writing to said agent, should it appear at any time that same are not fully covered by commissions on business written." Why, where you have given an agent such liberal commissions as that should you put in a clause that you will make advances to him on account of his commissions, and under no circumstances should you be able to require a return of that money even if it was not earned? A.—If it was not earned he would be dismissed.

Q.—Quite so, after a few months when you had ascertained he had not earned it? A.—We would satisfy ourselves before that long.

Q.—Is not that clause there inserted to prevent that being treated in your returns or for any purpose as debts due by agents? A.—We do not treat that as a debt due by agents.

Q.—And is not that clause put there for that purpose that it cannot be regarded as advances to agents? A.—It would be difficult to word that contract in any other way; for example, that is practically a salary contract.

Q.—You guarantee him he will make that much? A.—With an addition of so much commission up to the schedule—

43rd day, June 20, 1906.   Excelsior Life.   (E. Marshall, Ex'd.)

Q.—But where you give an agent such liberal commissions as these, is it necessary to guarantee him something? A.—Yes.

Q.—Would not that man have signed the contract just the same even if that $90 per month had been treated merely as an advance? A.—Not if he is opening up a new district. He wants to be assured of enough for living expenses.

Q.—How long have you been carrying on business in Ottawa? A.—We have been carrying on business in Ottawa ever since we started in business I think.

Q.—You would not call that a new district I think? A.—No, there are portions of it that are new portions of the district, of the counties.

Q.—One would not expect Ottawa would be the kind of place that a man would require a guarantee if he was getting paid liberal commissions; is that something the agent insists on, or is it something the company puts in there of its own motion in order to prevent that being treated as sums due by agents? A.—No, it is something the agent insists on, being sufficient to insure his steady income to at least up to his living expenses.

MR. KENT: Can you get the better class of agents— A.—We cannot get a good man unless we guarantee him so much money.

MR. LANGMUIR: Not on the straight salary? A.—We have to pay good agents a straight salary until the renewals insure the same thing.

Q.—Do you find in your experience that an agent on a straight salary uses the same amount of zeal in writing as a man on commission? A.—I think so.

MR. TILLEY: That would apply to your company probably exclusively? A.—We look a good deal more strictly after the salary men than after the commission men.

Q.—Let me ask you one question more; when you are dealing with an agent if you are going to pay him a salary or commission you must become conversant with the portion of his commission that he gives away, if he is paid on commission, that is one of the elements you take into consideration, and he impresses that on you, "I have to give away one-third or one-half of my commissions in rebates," that is something you would constantly hear, I should think? A.—I tried to arrive at a rough estimate on that very point.

Q.—What is the best estimate you have been able to make as to the portion of a man's commission he gives away, an ordinary agent? A.—I should judge, taking all the agents in a company together, in the neighborhood of between ten and twenty per cent. of their commissions are given away.

Q.—Then I was going to ask you on what basis were you employed in selling the stock, on commission or salary? A.—On commission.

Q.—Can you tell me what commission is usually paid for selling stock in an insurance company? A.—I was first of all, if my memory serves me, paid 5 per cent. on the cash collected; that was subsequently increased to 8 per cent. I found that was not sufficient to pay my travelling expenses and living expenses, the 5 per cent.

Q.—That was the highest? A.—It was subsequently increased to 8 per cent. at the highest.

Q.—I have heard of as much as 15 per cent. being paid in companies starting, that would be a high commission, you think? A.—It would in my judgment.

Q. Probably it would be at times when it was more difficult to place the stock; then you spoke about your position, as having some actuarial knowledge; I suppose that is as strong as you want me to put it? A.—Yes.

Q.—Is it essential in a young company, do you think, that there should be a trained actuary in the office, or persons with considerable actuarial knowledge? A.—Yes, in my judgment.

Q.—You think that is important; is it as important for a young company as in a larger company? A.—Yes; in our earlier days we always made use of the services of a consulting actuary.

Q.—Can a company get along with a consulting actuary as well as it could if it had its own actuary? A.—A young company should be able to do so.

Q.—Until the time comes for the division of profits? A.—That is one of the most intricate matters to deal with.

Q.—It does not need an actuary, I suppose, nothing more than a consulting actuary to establish its own tables for premiums? A.—When our rates were first drawn up they were submitted to a consulting actuary; and he endorsed them before the directors would authorize their use.

Q.—I suppose a new company's rates are usually a little less than the stan-

43rd day, June 20, 1906.

dard? A.—No, we never pose as a company issuing cheap policies.

Q.—But that is the usual thing? A.—Yes.

Q.—They go as high as they can but a little less than the older companies? A.—That is the rule.

Q.—With your company were your rates fixed by such a method, or were they fixed actuarially? A.—They were fixed in the office and endorsed by a consulting actuary, approved of.

Q.—Fixed by you? A.—The first rates were not, they were fixed by a man named Boddy, who is not now in the service of the company.

Q.—How many times have the rates changed? A.—Practically three times.

Q.—Tell me the years? A.—The first change I think was in 1899, and again in 1900, and then there was a slight change two years after.

Q.—Was the change in 1900 consequent upon the Act for a different reserve? A.—Yes, on the Hm. 3½ basis.

Q.—I suppose all companies changed their rates at that time? A.—Yes.

Q.—Were you then members of the Life Officers' Association? A.—Yes.

Q.—And did you adopt the standard rates that they adopted? A.—We did not at the start, but we subsequently have done so.

Q.—So that your rates now are in accord? A.—The standard rates.

Q.—At that time were they a little less? A.—A little less.

Q.—On all plans? A.—On all the participating plans.

Q.—Have your changes all been in the direction of raising rather than lowering your rates? A.—Yes.

Q.—I notice that in the return which you sent in regarding the loadings on rates that you have simply furnished the Commission with the net premium and the loading on all your different policies? A.—Yes.

Q.—You did not give any statement as to how that loading was arrived at? A.—The loading is partly constant and partly a percentage loading.

Q.—You have not given us any statement of that, could you give us one? A.—Yes.

Q.—Can you do it now? A.—I think I can recollect. The fixed loading in ordinary life to my recollection is a constant loading of $3 per thousand and 20 per cent.

MR. KENT: I suppose your rates were originally copied from the Canada Life? A.—No; we drew up independent rates altogether.

Excelsior Life. (E. Marshall, Ex'd.)

Q.—They might be copied and a certain reduction made in each? A.—We have taken the net premiums and made our own loading.

MR. TILLEY: Q.—Can you tell me how that has been done? A.—I have given the figures.

Q.—That is the present method of $3 constant and one-fifth? A.—On ordinary life plans, I will confirm that.

Q.—You can give the other rates? A.—Yes. I will send you up a detailed loading of all plans.

Q.—From your connection with the company you know all about the matters that Mr. Fasken spoke about this morning as to the capital stock? A.—Yes.

Q.—And as to the moneys paid in from time to time? A.—Yes.

Q.—From your return I see that you had $52,635 of capital stock paid in in the years 1890, 1891 and 1892? A.—That is correct.

Q.—Then you had $70,180 of capital paid in in the years 1893, 1894 and 1895, 1896 and 1897? A.—Yes; that includes the bonus.

Q.—Then you had $91,234 from 1898 to 1903? A.—That includes the bonus.

Q.—You had $124,781 in 1904 and 1905; all the way through those amounts included whatever bonus or premiums had been collected from the shareholders in respect of their stock? A.—That is the total moneys paid by the shareholders.

Q.—It would be the moneys contributed to the company by the shareholders? A.—Yes.

Q.—That would include five per cent. and six per cent. on the original stock? A.—Yes.

Q.—And 15 per cent. paid on a premium of 50 per cent. on the last issue? A.—Yes.

Q.—That is 7½ per cent. on the last issue? A.—Yes.

Q.—You I see made a report on the business in 1898, when that second bonus of 6 per cent. was made? A.—Yes.

Q.—Your report is dated November 25th, 1898? A.—Yes.

Q.—Prior to that had it been decided to make that call of 6 per cent. bonus? A.—Not finally decided.

Q.—Had it been discussed for some time? A.—It was a matter of discussion, it was alluded to even at the previous annual meeting.

Q.—That is anticipating an impairment of capital? A.—Yes, in con-

sequence of the large volume of business we were trying to write.

Q.—Anticipating an impairment of capital? A.—Yes.

Q.—Mr. Fasken's stockholding seems to have substantially increased on November 14th, which was before this was decided on, do you remember that? A.—Yes, I remember that.

Q.—Had it anything to do with this bonus? A.—No, I think it had more to do in the initial stages with the reports that were published in the papers in regard to rumors of amalgamation and so on. There were the names of several companies mentioned.

Q.—Was that phase of it discussed with you? A.—That was the phase—in what sense?

Q.—Between Mr. Fasken and you, was that discussed? A.—No.

Q.—Was there any discussion to which you were a party as to the advisability of Mr. Fasken picking up this stock of stockholders who would be apt to sell? A.—There was a meeting of the directors, and it was thought that means should be taken to prevent the possibility of—

Q.—Can you turn to any resolution of the kind? A.—No; my recollection of it is that it was informal.

Q.—The matter came up at a directors' meeting? A.—Yes.

Q.—What year, 1898? A.—That same year.

Q.—What month of the year? A.—It would be probably October or November. We discovered letters that were being sent out to our shareholders and asking for an option on their stock, and we endeavored to trace one or two up to the source and found a dummy was being used for that purpose. We found they were all being circularized in that way, all except those who were directors of the company practically, and the directors thought the step should be taken to prevent that—

Q.—Why prevent it? A.—Prevent the stock getting under the control of somebody whose purpose might not be in the interest of the company.

Q.—It was looked upon as objectionable for the stock to get under the control of one person who could deal with the company as he thought proper? A.—The directors deemed it inimicable to their own interests and the policyholders or shareholders that anybody else should be in control.

Q.—Was it policyholders or shareholders? A.—No, I think it was policyholders more than shareholders.

Q.—They thought their management of the company was better than any person else's would be? A.—I think the result has proved the accuracy of that.

Q.—Was that the idea of it? A.—Yes.

Q.—Mr. Fasken at that time does not seem— A.—As a matter of fact I think the shareholders and directors could have sold out their stock—had the directors considered their personal interest they would have sold it rather than have purchased at that time.

Q.—You think so now? A.—Yes.

G.—Because Mr. Fasken does not seem at that time to have any substantial holding of stock? A.—He was the only one—Mr. Fasken asked other directors to join with him, but none of them were in a position at that time to do so.

Q.—That I suppose is a constant danger to an insurance company where the stock is not very large and a large capital stock is not essential for an insurance company, is it, after it has once started? A.—After it has once got running and it has got over the period of impairments.

Q.—With a capital stock that is as small as this is, and getting along over the early years of its existence, and that stock being fairly well scattered it is always I suppose a constant source of danger to a company that it may be bought up by some person who will thereby get control of it? A.—That is the situation.

Q.—In a stock company that will be so; do you consider that an objection and did you at the time? A.—We did not at the time that the stock was first placed; we thought it an advantage to have the stock widely distributed.

Q.—So then your cure for it would be to put it in the hands of some person so that no person could get the control of it? A.—That is the idea.

Q.—Give some person the control so that no person could get it? A.—No, the control was placed in the hands of several of the directors, whose interests were identical with those of the policyholders.

Q.—No more than any other shareholders would be? A.—Of course in promoting their own interests they were promoting the shareholders.

Q.—That would apply to all the shareholders? A.—Yes.

Q.—Even if the stock had been sold to some outsider that would still apply? A.—Not necessarily.

43rd day, June 20, 1906. Excelsior Life. (E. Marshall, Ex'd.)

Q.—Did you go to shareholders to get them to sell? A.—Mr. Clarke and myself had meetings at Ottawa and Owen Sound.

Q.—Why did you choose Ottawa and Owen Sound? A.—Because they were the largest centres.

Q.—Of Excelsior shareholders? A. —Yes, and we had also a meeting in the city.

Q.—What sort of meeting would you mean by that—write to them ahead of time to meet you? A.—Yes, the President and myself were there to explain to them the position of the company.

Q.—Would you tell us what you explained to them at that time? A.—It was explained to them at that time that it would be necessary for them to make payments, another bonus in order to conserve their interest, and explained that the thing would have to be unanimous in order to be consummated.

Q.—That is all shareholders would have to contribute? A.—To contribute alike, otherwise it would not go through, and that some of the directors were prepared to take over the stock of those who were unable or unwilling to come in.

Q.—What directors do you mean would take over the stock? A.—There was Mr. Fasken particularly, and there were others, Mr. Grass, I think Mr. Gooderham had expressed a desire to have some of the stock.

Q.—Anybody else then? A.—Only in a small degree.

Q.—Who were they, no matter what degree? A.—Senator Gowan took some stock and Mr. Parker of Owen Sound.

Q.—As I understand the first matter was this sending of notices to some of the shareholders by some person wanting to buy? A.—Yes.

Q.—The directors, or those interested in the company came together and decided to buy any stock that was capable of being bought rather than see some person else buy it, is that right? A.—Yes.

Q.—They decided that? A.—Yes.

Q.—That was decided before the 6 per cent. bonus was actually decided on? A.—No. I think the 6 per cent. bonus was decided first, and that fact was being made use of by some people as an argument of advantage to sell their stock or give options on it.

Q.—Have you any circular now that was sent out to shareholders? A. —I think you have copies of all the letters.

Q.—You are speaking now of circulars you sent out; you say you found some of your shareholders were being circularized by some person else wanting to buy? A.—Yes.

Q.—Have you a copy of that? A. —Mr. Clarke himself I think, if my memory serves me right, he published a letter in the press denying the correctness of these rumors.

Q.—Denying what rumor? A.—In regard to the amalgamation or sale and so on.

Q.—You went so far as to deny it? A.—Yes.

Q.—At that time had you decided on a 6 per cent. bonus—your letter was dated 25th November and no mention is made of it? A.—It had been a matter of constant discussion ever since the previous annual meeting in February and probably before that; I pointed out from time to time in consequence of the large volume of business we were writing and the organization we were effecting that some provision of that kind was essential.

Q.—It was decided by these directors that you and Mr. Clarke should go to some of the chief places where shareholders could be got together and there explain the situation to them? A.—In order to obtain an expression of opinion as to what should be done.

Q.—What were the different courses open at that time that you were presenting to them? A.—On the one hand there was the rumor that the efforts being made to secure an option on the company's stock.

Q.—That is one thing; there was something on foot whereby a control of the company would be secured for amalgamation purposes? A.—Possibly.

Q.—That was one thing you had to discuss; what else? A.—The other the 6 per cent. bonus.

Q.—Anything else? A.—No.

Q.—You were endeavoring to keep the shareholders from accepting or giving an option on their stock? A. —Our reason was for explaining the position of the company to them, obtaining their views and fortifying them against disposing of their stock at sacrifice prices, or anything of that kind.

Q.—The result was at each of these places you found some persons who were ready and willing to sell? A.—They were all unanimous in the wisdom of the course the directors recommended.

Q.—Of getting 6 per cent. bonus? A.—Yes.

Q.—You found some that were in

43rd day, June 20, 1906. Excelsior Life. (E. Marshall, Ex'd.)

favor of it could not pay the money? A.—Those that were willing to dispose of their stock, that is the stock which Mr. Fasken acquired.

Q.—Did you close a bargain with them at the time? A.—No, I had to go back later. We had meetings here, at Owen Sound and Ottawa before I went out to clear the matter up, it being evident the directors would approve of it practically unanimously; I think the shareholders at Ottawa and Toronto and Owen Sound would practically represent at least two-thirds of the shareholders, in fact about three-quarters of them.

Q.—They were in favor of the 6 per cent. bonus and all who did not want to pay it you had arranged with them that their stock would be taken? A.—It was explained to them that those who were unable or unwilling to pay it up that their stock would be bought if they were willing to sell it.

Q.—And you say the lowest price that was paid was $15? A.—Par.

Q.—That is the most that any person would lose on the transaction would be the 5 per cent. bonus he had already paid and the interest on his money? A.—Yes.

Q.—Was that the price at which most of it was taken, $15? A.—The bulk of it at that, some higher.

Q.—How high was the highest price? A.—I think probably $20 a share.

Q.—Enough to let them out without allowing any interest? A.—Yes.

Q.—Your letter is dated November 25th, 1898, and is written to Mr. Kenny: (Reads letter). There is an item here "Assets not admitted, $4,-147," what would that be? A.—It is some difference in treating one of the securities.

Q.—What security? A.—I think it was agents' balances and some notes or something of that kind.

Q.—What was the dispute about it? A.—The Superintendent of Insurance threw them out, and we took them out of our assets but we subsequently collected them.

Q.—They were amounts owing by agents? A.—Partly by agents and partly by shareholders small balances owing on their stock.

Q.—Was it in respect of the 5 per cent. bonus? A.—Yes.

Q.—Is it fair to say they were thrown out by the Superintendent because they were not regarded as legally due? A.—They had been overdue but we collected them the following year.

Q.—And there was no loss on that item?

Q.—Attached to that letter is a memorandum as follows: "The present position of the company is the natural result," etc. (Reads memorandum). Then there is also that letter setting out the capital employed by other companies in the life insurance business, and the result is reached that the Excelsior Life should have larger capital? A.—That is my opinion.

Q.—I will put in this report of November 25th, 1898, and memorandum attached, and statement that is there with it showing the receipts and disbursements for ten months ending 31st October, 1898—that would be ten months of the Excelsior Company? A.—Yes.

Q.—Showing your total of expenses under the head of disbursements for 1895 to be $25,945, for 1896, $22,-729; 1897, $23,093; in 1898 it was up to $37,031—was that in your opinion entirely due to the increase of business? A.—Yes, the business nearly doubled, I think you will find between the two years, that is new business.

Q.—It was because you were so successful in getting the new business that your financial position was apparently so much worse by reason of the reserve you had to put up on that new business? A.—The reserve I computed that year to be 67 per cent. of the gross premium.

Q.—Of course your income was a great deal more than your disbursements during that time; Then the amounts are set out. There is a statement attached dividing your business into two departments, first the ordinary department and then the monthly department; the amount of new assurances applied for in the different years is as follows: 1895, $615,000; 1896, $492,000; 1897, $419,-000; 1898, $615,000. The assurances issued during those years, 1895, $564,-000—? A.—Is that for the entire year?

Q.—No, you are taking the same number of months, that is, from January to October in those years? A.—The last two months are always the best.

Q.—So that your comparison here was not of the whole year but of the ten months of the year? A.—Yes.

Q.—In 1896, $484,000; 1897, $447,-000; 1898, $577,000; and in force on the first of January, 1898, was $2,-681,454.15; then new and revived in

43rd day, June 20, 1906.

Excelsior Life. (E. Marshall, Ex'd.)

1898, $577,415; making in all $3,258,869.15; but you cancelled $247,040, leaving $3,011,829.15. A monthly account was also submitted at the same time, and it shows in January, 1898, you had in force $97,444 of insurance, with an annual premium of $3,903. Issued and revived up to 31st October, 1898, $305,161, with an annual premium of $12,598.80; making total insurance of $402,605, and the annual premium $16,501.80. The cancellations were $158,259, with a premium of $6,237, bringing the items down to $244,346, with premiums of $10,264.80. When it gives the total of the ordinary department and shows the total in force up to 31st October, 1898, $3,256,175.15, with a premium income of $102,367.53. Then it gives total in force 31st December, 1897, $2,278,898.15, with premium income of $85,112.95. So that in those ten months there had been a total gain of $447,277 of insurance, and total gain of premium income of $17,254.58, notwithstanding, and it was by reason of this large gain that you found yourself in need of paying in extra money to keep up the reserve? A.—That and the monthly business.

Report of 25th November, 1898, with memos attached filed as exhibit 241.

Q. Were you in favor of monthly business? A.—No, I always opposed it.

Q.—Were you opposed to it at the time it was commenced by the company? A.—Yes.

Q.—Whose idea was it that it should be commenced? A.—A man named Faulkner was practically the originator of it. He interviewed a number of the directors and got their endorsation.

Q.—Why were you opposed to it? A.—In my judgment it retarded the progress of the company, it would absorb surplus or profit.

Q.—It took the profits you were making in the ordinary business to be used in carrying on the industrial business? A.—They would be absorbed for several years any way.

Q.—I understood Mr. Fasken to say this morning it was not commenced for two or three years after the company was formed? A.—It was commenced in 1897.

Q.—How many years did you push that business energetically? A.—Two years.

Q.—Then in 1898, was it as the result of the discussion that then took place, that you decided to abandon it? A.—It was not until the following year, 1900.

Q.—1900 you decided to stop it? A.—On my recommendation the Board—

Q.—I see in 1897 the amount of insurance in force was $122,167, that was in the monthly business? A.—Yes.

Q.—In 1897 it was $247,575; in 1899 $285,888; that is the highest amount it ever ran? A.—Yes.

Q.—Then in 1900, $197,643, and it has run from that down to $119,117 in 1905? A.—That is correct.

Q.—But you have not during that time, as I understand it, been in the later years pushing that business at all? A.—No, making no effort to secure it; there have been a few policies issued, none to speak of.

Q.—Do you know whether your receipts from the industrial business exceeded or were less than your expenses and death claims in that branch? A.—They were when we ceased, but we have recovered.

Q.—As I make it, in 1897 the expenditure exceeded—? A.—Very much.

Q.—Exceeded your death claims and expenses in that department by $2,052.97? A.—Yes.

Q.—Have you any figures you can check that by, or do you know? A.—I can speak in round figures.

Q.—That would be right? A.—Yes. We have recovered all that, and I think our receipts are——

Q.—In 1898, $9,083.55 excess of expenses over the receipts? A.—Yes.

Q.—1899, $8,393.60; in 1900 apparently you had changed your method with regard to that business? A.—To straight commission.

Q.—And you had stopped incurring such large expense in connection with it? A.—Discontinued pushing the businesss.

Q.—And it changed then from a minus $8,000 to a plus $3,112.31? A.—Yes. You will find the total pluses will exceed the minuses by 50 per cent.

Q.—In the following years, 1901 they were $4,607.83, $4,236.31, $3,897.30, $2,108.99, $2,790.64, that is 1905; those last from the year 1900 have all been in your favor, your receipts being more than your expenditure? A.—Yes.

Q.—And it leaves the total receipts on that class of business to date for the company $1,223.44 in excess of the expenses and death claims? A.—Yes.

Q.—If you had not changed your method of carrying on that business

43rd day, June 20, 1906. Excelsior Life. (E. Marshall, Ex'd.)

I suppose it would not have shown that result? A.—It would have shown a minus all through.

Q.—And considerably more of a minus than any of the years we have mentioned? A.—No, I would not say that, there would be a decrease—

Q.—You think it would begin to decrease now? A.—Yes, because the old business would increase, there would be a constant tendency—

Q.—It lapses very rapidly? A.—Yes.

Q.—And it takes a much longer time to get a persistent business in that class of insurance than in the ordinary insurance? A.—This is a better class of business probably than the ordinary industrial.

Q.—Why would you say it is better? A.—Because they are larger premiums, the premiums run from 25 cents a month up to $1 or $2.

Q.—You don't get down to the small premiums that some of the industrial companies do? A.—No.

Q.—What was your highest monthly premium income from that source in round figures, do you know? A.—$12,000 in one year.

Q.—That would be $1,000 a month? A.—Yes.

Q.—You could not be said to have got it established ? A.—No, it would take very much longer to establish an industrial company.

Q.—These figures I have given to you do not in any way take into account the amount you had set apart for Reserve in respect of that business? A.—We assumed the same Reserve on that business that we did on the old business.

Q.—But the figures I read did not take into account the money you would have to set apart for Reserve? A.—No.

Q.—From your actuarial knowledge would you criticize the statement that Mr. Harvey made here, that in industrial business there should be no Reserve required for the first year—that would be a very serious difference for an industrial company—we can start with that—if it did not have to put up any Reserve for the first year for the new business each year because a great deal of it lapses in the next year? A.—Yes.

Q.—And they never have to pay a Reserve on it at all? A.—In my judgment the full Reserve is entirely unnecessary.

Q.—You would say that, I suppose, with respect to ordinary insurance business? A.—Yes.

Q.—That the Reserve required by the Government is more than is really necessary to keep the company solvent? A.—In the case of new insurance.

Q.—After three or four years have gone by the net premium Reserve should be required, you think, is that right? A.—Yes.

Q.—But here is what Mr. Harvey said: He said that the difference between the ordinary insurance and monthly insurance is that in ordinary insurance people do not insure till they get very near their next birthday, because there is such a difference in the premium that they discriminate against the company and wait till it is just coming to their birthday, and then they insure; can you say whether your experience leads you to confirm that, or do they insure at any time during the year without regard to their next birthday? A.—In our experience there has been no difference.

Q.—Mr. Harvey seemed to mention that his company——? A.—I have not had much experience in real industrial insurance, and I am not competent to give an opinion upon that. My observation shows me to establish a company writing an industrial business it takes nearly as long again as a company writing ordinary business.

Q.—You know an industrial business from the practical side, you know what it costs? A.—You take all the large successful companies to-day, they were practically insolvent when they were ten to fifteen years old.

Q.—I don't want to get into a discussion of Mr. Harvey's examination; I would like that point to be clear. that so far as your experience goes—? A.—The experience in our monthly business is no criterion of ordinary industrial business. The monthly business is very much more expensive than the ordinary, and I know ordinary industrial insurance is very much more expensive than our monthly.

Q.—That is a matter of expense, and probably on the other feature of it too it would not be worth while following it up; this is the profit and loss statement you have put in. You have given the loading on the first year premium as being $17,944.73, and you are going to give us a statement of how you establish these loadings? A.—Yes.

Q.—Your net expected death losses in 1905——? A.—In respect of new insurance——

Q.—Yes; $9,435.53, and the net ac-

43rd day, June 20, 1906. Excelsior Life. (E. Marshall, Ex'd.)

tual death losses in the year were $3,397.28 in respect of those new policies, so that the gain there would be $6,038.25. The total margin on the first year premiums would thus be $24,032.98, and the expenses of the first year were $71,784.71 or a loss of $47,751.73. That means that your first year business taken by itself would have produced that amount of shrinkage? A.—Yes, that is the result.

MR. LANGMUIR: How much was written that year? A.—Two and a half million dollars.

MR. TILLEY: Q.—In your opinion, is it proper to count on a permanent gain in mortality, or is that something that is only applicable for a few years? A.—A few years in my judgment is absolutely imperative, it is in order to avoid a company showing an impairment.

Q.—That is to say you have to take it over a few years. A good deal has been said about the Canadian companies being able to make up their expenses partly out of their gain in mortality, is that a source of revenue that is going to be permanent here or not? A.—To a limited extent; no Canadian company ever sustained the full rate of mortality, I understand.

Q.—No Canadian company ever sustained the full rate of mortality, none has yet? A.—Not yet.

Q.—Is that due to the fact that the company is writing a lot of new business? A.—In some measure, but I think in the case of the Canada Life it pretty clearly demonstrates that we have a more favorable mortality in Canada.

Q.—You think there is a more favorable mortality in Canada than the mortality that is adopted by the Hm. table? A.—That would be my opinion.

Q.—And you think that probably taking that table as the basis that companies here may always look forward to a gain in mortality? A.—That is my opinion, yes.

Q.—The expense of the first year, then, according to that return would be about three times the margin for it? A.—Three times the margin on the new business.

Q.—Is that, do you think, relatively a high or low rate? A.—We consider it an unusually low rate.

Q.—What would you think would be a fair rate for expense of new business as compared with the margins for new business? A.—It should be sufficient to enable the company to arrive at a profit in about four or five years' time on all plans.

Q.—That is taking the average of plans, it should work out in four or five years? A.—Yes.

Q.—So that it would keep within the margin? A.—Yes. This shows we would work out in about three years.

Q.—That would show you are using three years' margins for the new business? A.—Yes.

Q.—Your total loadings for the first year business and the renewal business would be how much, they are about $79,000? A.—A little over $79,000.

Q.—So that your first year expenses, $71,784.71, would be about 90 per cent. on all the loadings on your policies for the first year and the renewals as well? A.—So far as 1905 business is concerned.

Q.—Can that method be carried on so as to work out a profit? A.—We consider we are at a stage now where we can count on profit every year, or a more favorable return.

Q.—If it continues at the rate of the first year expenses, being 90 per cent. on all the loadings on all your policies, you could not make much headway that way, could you? A.—No; it will be a decreasing percentage in consequence of there being a larger volume of old business.

Q.—Each year's business you put on the books constitutes so much more for renewal business next year; it makes the ratio between new business and old business more favorable? A.—We will have a loading to one and one-half millions more old business this year than we had previous years.

Q.—That seems to be very high for a company that has been in existence for some fifteen years, that you should be using 90 per cent. on all your loadings for the first year expenses? A.—I would consider it remarkably low.

Q.—In 1905 were you opening up and one-half millions more old busilarge volume of business. Our ratio on new to old business last year was larger than any other company in Canada, the last two years.

Q.—That applies to 1904 and 1905? A.—Yes.

Q.—The net expected death losses in 1905, other than the new business would be $48,359.89; the actual death losses would be $22,088.70, so that there would be——? A.—A profit of $26,271.19.

43rd day, June 20, 1906.

Excelsior Life. (E. Marshall, Ex'd.)

Q.—That would be about 46 per cent. of the expected death losses on the old business? A.—Approximately.

Q.—And the first year's business was 36 per cent. of the expected? A.—Yes.

Q.—Is that favorable to the company? A.—Exceedingly favorable. We gained from that source over $32,000.

Q.—That would be favorable because of the very same statement you make in explanation of the other being unfavorable, the amount of new business you have put on your books? A.—That results in favorable mortality in a great measure.

Q.—Your interest, dividends and rents received in 1905 amounted to $51,471.15, and your taxes $1,452.55; from that you take the reserve, $33,069.52? A.—That is interest required to maintain the reserve.

Q.—Making $34,522.07; leaving your gain with respect to interest, $16,949.08. Was the statement that Mr. Fasken made regarding your interest this morning correct as to last year's rate being about 7 per cent.? A.—Yes, a little over 7.

Q.—What was it the year before? A.—About 6.56.

Q.—What before that, 1903? A.—We have been steadily increasing for the last seven or eight years.

Q.—Owing to what? A.—Owing to our investments being moved out West chiefly, and placed in mortgages on real estate.

Q.—Have you included in that any gains on invesments, or have you had any gains? A.—Yes.

Q.—What gains have you had? A.—An item of about $450 in round figures.

MR. LANGMUIR: Gains on bonds? A.—That would cover that, on bonds.

MR. TILLEY: Q.—Have you had any investments at all on which you have had a gain other than that? A.—No, I think that is all.

Q.—Is everything else you have brought into that statement pure interest? A.—Yes, as far as I can recollect. There is interest on premium notes and accounts.

Q.—What rate of interest do you get on those? A.—On premium notes 7 per cent.

Q.—What rate do you get on policy loans? A.—Six and seven, depending on the amount. If the amount is lower than $100 we charge 7 per cent., if it is over $100, we charge six.

Q.—Is that uniform? A.—Yes.

Q.—Is that automatic, or do you have to make a ruling on each man's application? A.—That is our rule.

Q.—Is it departed from? A.—No, I think it is strictly adhered to.

Q.—No matter who the applicant is? A.—No.

Q.—All policy-holders are treated alike? A.—Yes. There has been an exception made in one or two cases where the amounts have been over $500 or $1,000.

Q.—You say then 7 per cent. has been your interest earned, and that has been due to your mortgages? A.—That covers bonuses.

Q.—What bonuses? A.—In case a mortgage is paid off, we get interest as bonus.

Q.—Does that make any considerable item? A.—It did happen last year on account of that being the termination of our fifth year in which we had made loans in the West on mortgages.

Q.—How long have your loans been made for there? A.—Five years.

Q.—And that was the termination of your fifth year? A.—Yes.

Q.—How would there be a bonus? A.—I said we had a larger amount of loans that were coming in; there were no loans paid off at the end of the term, but during the last five years, the amount was larger last year in consequence of our loans out there being $200,000 more than any other year.

Q.—Have you your books so that you can tell us what that item of bonus would amount to?

MR. LANGMUIR: Is that bonus to be allowed to pay off?

MR. TILLEY: That is what I understand.

MR. LANGMUIR: That is an overdue loan?

MR. TILLEY: Q.—Is that a loan paid off before maturity? A.—Yes.

Q.—And a bonus paid to you for the privilege of paying it off? A.—Yes.

Q.—I would like you to tell me what that amounts to in the year 1905? A.—I could give you the exact figures.

MR. LANGMUIR: Q.—Is that in Manitoba, or in Alberta and Saskatchewan as well? A.—Yes.

Q.—The three Provinces? A.—Yes.

Q.—More in Alberta and Saskatchewan, or in Manitoba? A.—It is about evenly divided between Manitoba and the new Provinces.

Q.—You get a much higher rate in the New Provinces? A.—It ranges from 6½ to 8 and 9 per cent.

43rd day, June 20, 1906.

Excelsior Life. (E. Marshall, Ex'd.)

Q.—In Alberta and Saskatchewan? A.—And Manitoba.

JUDGE MACTAVISH. Q.—British Columbia? A.—No, we are not loaning there.

Q.—Would it be a very large sum? A.—No; it would not take a very large sum to make it one-half per cent. in the interest; probably somewhere between $300 and $500, I should judge.

MR. TILLEY: Q.—That is not a very considerable item? A.—No.

Q.—Substantially, can it be said that your interest was 7 per cent. by reason of your mortgage investments? A.—Yes; mortgage investments realize, as stated, from 6½ to 8 per cent, small loans 9 per cent.

MR. LANGMUIR: Of course, you find it very costly to get the mortgages there; they cost about 2 per cent for commissions? A.—1 per cent.

Q.—But inspection; you have a man to represent ——? A.—The inspection fee is paid by the applicant.

Mr. TILLEY: Q.—There is a gain of $9,747.03 by released reserves? A. —That is the reserves on policies which have expired or surrendered or lapsed.

Q.—That yould be practically the sum that would go in reduction of the first year; your principal gain would be policies falling in within the first three years.

Q.—Before there is a surrender value? A.—The third year we give a surrender value; prior to that.

Q.—That would be an item that would come in prior to that; after that there would be some gain, I suppose, from a surrender? A.—We make a surrender charge.

Q.—About what charge do you make? A.—It depends upon the duration and the plan. Take a twenty-payment life, I think it ranges from 60 per cent. up to 90 per cent., and we give the full reserve at the end of the full period.

Q.—I think 50 per cent. of the reserve is about the minimum you allow? A.—After three years.

Q.—With increases according to different plans and different stages? A. —Until the full reserve is allowed; accumulated policies.

Q.—Have you a considerable amount of not taken policies? A.—No, a very small amount.

Q.—I notice in 1900 your business was $2,216,460, and $50,500 was not taken, that is about 2¼ per cent.? A.—It would be about 2 per cent. or over.

Q.—What about the lapsed policies, does your policy provide that where a policy lapses the right to surrender value or continued insurance extended is automatic? A.—No.

Q.—What does it provide? A.—It provides for paid-up insurance, cash surrender value, or extended insurance, if applied for.

Q.—If you applied for it? A.—Within four months. Our policies are identical in terms with other companies' policies, they forfeit the right in four months.

Q.—I cannot say they are identical with other companies, that is your policy? A.—Yes.

Q.—If the applicant does not call for his right under that clause do you give it to him? A.—No, he can apply for reinstatement.

Q.—Is this the notice you send out to the insured? A.—We send out a number of notices.

Q.—Is that one? A.—Yes, we send out two notices, and then we send out a number of letters before the policy is cancelled.

Q.—This is the notice of lapses (reads)? A.—Yes.

Notice of Lapses marked as Exhibit 242.

Q.—That gives the insured no information at all as to his right to some surrender value or extended insurance? A.—No.

Q.—Why should not you when writing to him about renewing his policy, let him know what his rights are? A.—We do.

Q.—How? A.—By letter.

Q.—Where is the form? A.—We have no form. We have a special letter required in a special case. We have a Department to deal with such cases.

Q.—With what cases? A.—All policies that lapse or terminate in any way.

Q.—Who has charge of that department? A.—Mr. Davidson.

Q.—What is his duty? A.—His duty is to write; all the lapsed vouchers are handed over to him, and it is his duty to write to them.

Q.—Send them that circular? A.—No, that is sent out before it gets to him.

Q.—What does he do when it gets to him? A.—He sends letters to the parties recommending reinstatement, offering to revive the policy, or loan the premium as the circumstances may require.

43rd day, June 20, 1906.

Excelsior Life. (E. Marshall, Ex'd.)

Q.—Anything else, does he tell them what they are entitled to? A.—No; our efforts are all in the line of reinstating.

Q.—Not giving the man information as to what he can get if he does not want to reinstate? A.—I don't know that that is specifically pointed out in every case.

Q.—Is it done in any case? A.—Yes.

Q.—Then you first find out what the man's habits are? A.—No.

Q.—And whether he is looked upon as a good risk? A.—No.

Q.—No attempt made to do that at all? A.—Not in his Department.

Q.—In whose Department is that? A.—We make inquiries during the first year or two years to see whether there has been any misrepresentation of material facts.

Q.—You make inquiry as to that? A.—Yes.

Q.—How do you make your inquiry? A.—Through a commercial exchange.

Q.—Within the first year of every policy? A.—As a rule within the first 18 months, before the period of incontestability arrives.

Q.—Outline what you do? A.—We make inquiries for the purpose of ascertaining if the applicant in his application has made any material misrepresentation with regard to his health at the time.

Q.—That is done through what institution? A.—We have various institutions.

Q.—What institution do you use? A.—We use the Standard Agency and the Canadian Confidential Agency of Montreal, and sometimes other agencies.

Q.—Do you do that with respect to every policy? A.—Excepting those that are personally known to us.

Q.—That is after you have got the insurance? A.—Yes.

Q.—You do not take any time for that beforehand? A.—We do not delay the issue of the policy.

Q.—You have friends' certificates with every application? A.—Yes.

Q.—Do you ever apply to the friends? A.—Yes, but we don't pay much attention to that.

Q.—But before the period of contestability is up you do make inquries unless you know the man personally? A.—Our general rule is, after he has paid the first year's premium.

Q.—After he has paid his second premium? A.—Between that and the second premium.

Q.—And then you get a report on him, what do you do with that report? A.—If it appears there is any mis-statement made we communicate with the applicant and ask him to explain.

Q.—Have you ever communicated with the applicant in any case? A.—Yes.

Q.—And cancelled the insurance as a result? A.—Yes.

Q.—Arranged for a cancellation of the insurance? A.—Yes.

Q.—In how many cases have you done that? A.—I don't suppose there have been probably half a dozen cases, that is where we have returned the premium.

Q.—That is half a dozen cases? A.—Yes.

Q.—I suppose that means some expense to the Company to do that? A. Yes, but one case would pay several years——

Q.—What other use do you make of the information, do you use that information when it comes to a case of lapse, getting him to reinsure? A.—No, if a man's policy is lapsed over thirty days we require a certificate of good health before he can be reinstated, that is over thirty days exclusive of the thirty days' grace.

Q.—That would be 60 days from the time the premium came due? A.—Yes.

Q.—Beside that information, you give instructions to your agents to send in reports to you from time to time as to any person who is insured and his habits are looked upon as being proper? A.—No, that refers to the time—

Q.—39 in your agents' manual, "Should it come to your knowledge within two years that a policy-holder's personal condition or family history is not as good as stated"? A.—That refers during that policy—it refers to the application.

Q.—That information that you get in that way would be useful to you in determining whether you will chase a man up to get him back after he has missed paying a premium? A.—I don't think we ever paid any attention to that. Our whole endeavor is to guard ourselves against fraud.

Q.—If a man makes no application for his surrender value, he doesn't get it, does he? A.—No, within four months after, that is five months from the time.

Q.—If he made application six months after he would not get his money.

Why should he be bound to make an application to you for it? A.—Well, the policy is the contract. It fixes the respective rights and obligations of the policy-holder and the company.

Q.—Do people who take out insurance read the terms of their policies and carry them in their mind? A.—They should do.

Q.—Is it not one of the easiest things for a man to forget all about the conditions of the policy or some microscopic condition on the back of it?

MR. KENT: The witness says he should do. That is a very poor reply. Don't you know, Mr. Marshall, that they do not do it? A.—Well, as a matter of fact, I don't think there is one policy in a thousand that lapses where they don't apply for it. We send them two notices before lapse, two printed notices after lapse, and we circularize them. We can't do any more.

MR. TILLEY: That is getting entirely away from the question. Don't you know that they do not read their policies? A.—I don't know that they do not. I know I read mine.

Q.—That may be so, because you seem to have special rates; you get the whole first year premium off, and you should go to that trouble. A.—It is clearly stated in our policies that they have got to make application within four months. There must be some time.

Q.—Just going through your policies and fixing on some names and asking for a report as to them, we find a man who pays nine premiums and then does not pay his next premium, and seven months later he asks for the cash value. Can you tell me what the cash value would have been on that policy, No. 1912? A.—It is an ordinary life non-participating.

Q.—While that is being looked up for you. This statement that you handed in shows, according to your computation, how long it takes a policy to begin to accumulate surplus? A.—Yes.

Q.—I will put that statement in as exhibit 244. It shows, giving the figures in each case, that it takes a life policy until the fourth year; a twenty-payment life the end of the fourth year, and a twenty-year endowment until after the fifth year to commence to accumulate surplus. Have you now got what his surrender value would be? A.—Between $35 and $40.

Q.—That money belonged to the insured just for the asking for it; all he had to do was to write you a letter and the money was his? A.—Yes, within five months from the time the premium came due.

Q.—Can you tell me any reason why mere forgetfulness or procrastination on his part should make what is his money the money of your company? A.—Well, there must be a period, some period or other.

Q.—The Statute of Limitations is a very good period; six years for an ordinary debt. Why should the insured have to apply at all; why shouldn't you send it to him? A.—Because it is a condition of the contract.

Q.—Why should you make that a condition as between the insured and the company that he insures in, where you are collecting his money, as it were, and carrying on a thrift business, as it was described the other day, and said to be a business that should not be taxed. Why should you put such a condition as that in a policy. Can you give any reason for it? A.—At the time the policy in question was issued I don't know of a company that did not have that condition in.

Q.—Have you fallen behind the other companies in that regard? A.—No, our policies are more liberal in their terms now.

Q.—But not in that term? A.—They have to make application for this. You cannot issue a policy and possess all the strong points of every other company, and make any money for the policy-holders or the company.

Q.—That is all that can be said about it anyway.

MR. KENT: Has the case ever come to your knowledge, Mr. Marshall, where any of your agents, or any agent of any other company, ever read an intending insurer the conditions of a policy? A.—Yes, and that point has been shown, that our agent, if he is spoken to, can point out some feature of the other policy which more than overcomes that.

Q.—An insurance agent will take his policy and point out some superior point over the policy of another company? A.—Yes, if he understands his business.

Q.—But his policy is the contract between the company and the insured; the company or its agent ought to read over all these clauses to the man, particularly if he is an ignorant man. I never knew it to be done, or heard that it was done; but you think it a reasonable thing to make a stipulation

43rd day, June 20, 1906.

Excelsior Life. (E. Marshall, Ex'd.)

that a man does not get his own money unless he applies for it in four months? A.—No, to get the cash surrender value they have got a year within which to apply for reinstatement. We notify them of that. Some companies have a non-forfeiture feature, but perhaps they do not give half the amount of surrender value that we give.

Q.—No company has a reasonable right to call a policy a contract and hold the insured to that contract, unless they have reason to suppose the man knows what the conditions of the contract are, it is taking advantage of a great many people's ignorance, and taking advantage of almost all people's negligence, to say here is a contract and you are bound by it, so much the worse for you if you don't claim your money in the proper time, it goes to the company or to the other policyholders. That may be law but it is not what I should consider equity. A.—Competition is so keen that the tendency is to make the policy conditions too liberal.

Q.—But that has always been avoided; there is no mention made of this condition to any man that is being assured. There are some strong points about each policy that the agent dwells on, particularly the feature that you are going to get your premium back, and you are going to get a little more butter than bread, but this clause about surrender value and the necessity of notice in order to receive the surrender value, I never heard of an agent making a single remark about. I know it was not mentioned to me. In fact it was not until this investigation commenced that I got a clear idea of what surrender value was. A.—In old days your honour, there was no surrender value whatever.

MR. TILLEY: Now on the valuation of your reserve, you have been changing it by a different system from any other company we have inquired into yet? A.—A gradual process.

Q.—Instead of making a complete change at any one time you have commenced by changing certain years? A.—We changed 1890, then '91 and 2. At the present time we have three years of our old business prior to 1900, on a 3½ per cent. basis. Next year we will have four.

Q.—Since the new Act came into force you have been on a 3½ per cent. basis for new business? A.—Yes.

Q.—And you have commenced computting the reserve for the old policies of '91 on the 3½ per cent. basis? A.—Yes.

Q.—The next year you did the '92 policies, and so on. A.—In 1912 we will have it all on a 3½ per cent. basis.

Q.—Do you anticipate any difficulty in getting the reserve as required by the Act of 1912? A.—Well, it will mean a reduction in the profits or surplus that we can allot in the interim. It will ultimately come back to them.

Q.—You must hold back from your policyholders money that you would have been paying out to them in profits? A.—We have had to transfer so far $15,000 from surplus to reserve fund to carry out the requirements of the Government.

Q.—And you will have to continue doing that. Was that your idea as to the fair way of changing the basis, to commence with certain years? A.—That was my suggestion. It would mean passing the dividend to policyholders altogether if we had attempted to do it all at once. I concluded that the least interest would be affected by making it gradual.

Q.—Is your surrender value a percentage of the reserve on a policy? A.—Yes.

Q.—Does the changing of the reserve on the policies of the years '90 and '91 before you changed the reserve on the policies of the year 1897 affect the surrender value on those policies? A.—The surrender value will be based on the reserve. When we change it, it will be on the 3½ per cent. basis.

Q.—When you changed the computation of the 1891 policies from 4½ to 3½ that changed the reserve of course. A.—Changed the reserve.

Q.—Did that have the effect of changing the surrender value that those policyholders could get? A.—Ultimately, of course, it will.

Q.—But supposing one applied for the surrender value to-day in respect of a policy issued in '92, would the policyholder get any more by reason of the change in the rate of insurance? A.—No, not at the present time.

Q.—Why not? A.—Because the policies issued since that time at higher premium would have contributed a larger amount to the surplus.

Q.—The new policies that have contributed towards the surplus funds of the company on a basis of a higher

43rd day, June 20, 1906. Excelsior Life. (E. Marshall, Ex'd.)

premium would get a higher surrender value? A.—Yes.

Q.—But the policies issued in '92, although changed to a 3½ per cent. basis, you would not give the man any more surrender value on that account. A.—Not unless on the termination of an accumulation period he might be entitled to it then. I would consider him entitled to it then.

Q.—Has changing the basis of the reserve on two or three years before you do it on other years the effect of giving these policyholders any preference? A.—No, probably for a year or so, but it would hardly be worth speaking of. Ultimately they will all be on the same basis.

Q.—If they survive and their policies are still current they will? A.—Those that lapse during the period of transformation would not, and in my judgment are not entitled to it.

Q.—They would be dealt with on the basis of the old reserve, the 4½ per cent. reserve? A.—Yes.

Q.—Have you laid down any rule about that? A.—Not yet.

Q.—You are treating those policyholders as being entitled to reserve on the 4½ per cent. basis for any monies they withdraw from the Company in the meantime? A.—Yes.

Q.—But for the purpose of getting the standard up to the Government basis of 3½ per cent. you have changed the reserve to 3½? A.—Yes.

Q.—But for no other purpose? A.—No other purpose.

Q.—Do you keep an individual account with your policies? A.—As regards profits? No.

Q.—How do you divide your profits between policyholders? A.—We have not adopted the strictly scientific basis owing to the expense involved.

Q.—It does not involve much expense, if started and continued? A.—No company adopts it until they have a considerable amount of business, and it would mean a substantial addition to our staff, probably an expense of about two or three thousand dollars a year. It would mean a considerable encroachment upon the profits for us, a small company, to do that.

Q.—But you have to divide profits, or haven't you? A.—Yes.

Q.—What have you done, just decided that you will pay certain profits to certain policies and make an end of it? A.—No, we arrive at the amount available for distribution. We make a calculation of the amount of business we have in force on each plan of insurance. Then we determine what would be a proper allotment to the policies of each plan in the shape of a bonus addition.

Q.—That is an arbitrary division of the surplus in that way? A.—Well, we have taken the practice of the British companies as our guide in that respect, as regards the discrimination between one class of policy and another class.

Q.—Having made that division do you pass the portion of the fund to the credit of the different classes of policies and so on? A.—No, they are not credited in the shape of being assumed as a liability of the company.

Q.—Not in any shape binding on the company? A.—Not as a liability. It would be credited, but if we credited the policy actually we would have to assume it as a liability.

Q.—Would not that be the right way? You should not be able to play fast and loose with a man's profits, should you? A.—Well, for an old company that is not utilizing its surplus in organization and establishing its business in new districts, it is all right, an old company can apportion it, but not a small company.

Q.—A small company must keep it all in one tub, so to speak? A.—We consider we are making larger profits by keeping it invested.

Q.—I am not saying you should not keep it invested because you apportion it to certain accounts? A.—We make provision for all the profits on all the policies year by year as they fall in. We are distributing this year between seven and eight thousand dollars.

Q.—A certain number of policies have fallen in this year? A.—And we have made provision for that ahead.

Q.—And I suppose you have regard to what those policyholders will be expecting and what you propose to do about future business of the company, all that sort of thing comes into your minds? A.—Yes.

Q.—And then you take six or eight thousand dollars and say, we will give that to them this year, is that right? A.—Yes.

Q.—That may be a very good way from the company's standpoint, but that does not seem to be a methodical appropriation of your profits, such as a person who is participating might reasonably expect to get. A.—Our endeavor is to make the profits as large as we can for our policy-holders.

Q.—Having regard to future expansion? A.—Well, suppose we have a

policy not entitled to profits for ten years. By utilizing that policy's present profits in the development of the company we are making more profits for him, but if we assume that profit as a liability we cannot use it in that way.

Q.—If you credit the man's policy with it, then the company has treated that as being his money. A.—We do credit it in a sense, but we do not assume it as a liability.

Q.—Do you credit it to his policy? A.—Certainly we do.

Q.—And then if you made further profits you would credit them, and if you made a loss you would have to deduct it? A.—We credit profits on all our policies this year that are entitled to it, whether they draw it out or not. If the profit is drawn out it is assumed as a liability, if it is drawn out in the shape of cash or a bonus addition.

Q.—That is very good for policies entitled to profits this year, but you have issued deferred dividend policies? A.—Yes, and we allotted the same profits to them as we did to other policies.

Q.—You have to allot the policies that are not entitled to it for some time? A.—No, but we make allowance for all that.

Q.—How do you make allowance? A.—We make a calculation as to the amount of money we absorbed in writing new business which properly belongs to the old business.

Q.—How much money have you now set apart for deferred dividend policies? A.—We have no money set apart.

Q.—How much money have you appropriated to them in any way? A.—We have about $54,000 that belongs to deferred dividends and other policies.

Q.—Or shareholders? A.—No, I don't think to shareholders.

Q.—Why not? What have you done that takes it away from the shareholder and gives it to the policyholder? A.—The shareholders draw their dividends every year.

Q.—But you could next year double the dividend for all, the Act of Parliament operates on your rights. A.—That would be a very injudicious policy.

Q.—Supposing I am insured in your company, and I have had a deferred dividend policy that has been running for thirteen or seventeen years, and I come in and say to you, "Well, how is my interest in this company getting along? What am I entitled to now?" you could not look up and tell me? A.—Yes, I could. You are entitled to the same profits that the policies of the quinquennial periods have drawn, plus your share of those who die or drop out.

Q.—Each year when a quinquennial division is made a similar amount is allotted to my policy? A.—Certainly.

Q.—How do you figure out the benefit I will get by other persons dropping out of the class I am in? A.—Supposing there are 100 policies in the same year. At the end of the quinquennial there is an allotment of profits; you get, say, $50 every year there is an allotment to your policy. Of the original hundred who participate in the first allotment perhaps only forty or fifty or sixty are alive to draw the benefits; in addition to drawing the amount allotted to their own policy they divide up between them the share of those who have forfeited.

Q.—That brings me to the end of the deferred dividend period. Do you tell me you are keeping an account like that in your books with respect to deferred dividends? A.—We are keeping an account, and we have a termination register. We have cards to represent each individual policy with which an account is made of the profits.

Q.—In respect of that policy? A.—In respect of every policy.

Q.—Each policy has a card? A.—Each policy has a card. If it is a 20 Payment Life Policy and the bonus addition is, say, $50——

Q.—Is that added to the card each time a bonus addition is declared? A.—Not added to the card. We have a book for that purpose. We know that at a certain year policies are entitled to certain bonus additions.

Q.—As you go along, the year that my policy becomes a claim and I am entitled to the profits, you do not do anything that prevents you dealing with my policy in that year in any way you please and you can give me as much or as little as you like, is that right? A.—No, it is not correct.

Q.—What do you do to prevent yourselves dealing with my policy in that way? A.—You would be entitled to the same profits as others who have received an allotment. In addition you are entitled to your share of the profits that have been forfeited by those who have dropped out.

Q.—That means that you must be careful not to pay out more than you

43rd day, June 20, 1906.

Excelsior Life. (E. Marshall, Ex'd.)

ultimately will pay to me? A.—We endeavour to do so.

Q.—So that you err on the side of being low rather than high now? A. —Yes.

Q.—And that continues to be up to the present merely an arbitrary division by you? A.—An arbitrary division which has been endorsed by competent authorities as being a fair distribution until we are justified in assuming the expense of keeping a regular department for that purpose.

Q.—If you were justified in going to that expense it is a thing that you should have. A.—Oh ultimately, undoubtedly, but for a young company like ourselves it would be certainly unjustifiable. The expense of that department would make a serious encroachment, as I have stated before, on the profits.

Q.—It would cost something, no doubt. I notice that in your return for last year you include under item No. 14. Other Ledger Assets, Details in separate Schedule $3,294.04 and that is made up of two items, Office furniture $1,951.51, and sundry accounts as per schedule $1,342.89, and then you have put in a schedule of the open account. Will you tell how those open accounts arise? I see that they amount to, on one side $3,739.23 and then, apparently, you owe some other parties an open account $2,396.34. A.—They are accounts of agents, debits and credits, nothing particularly noticeable. Nearly all such.

Q.—Suspense account $1,138.98. What does that mean, how long has that account been carried in that way, these balances? A.—That is the only item brought forward.

Q.—Why are those items kept in suspense account, what is the nature of them, looking at the account there? A.—Well, one item there is Manitoba License, which is paid in advance, which we thought should not properly be adopted in last year. Provincial License for 1906. It was paid out in December but we think we are not entitled to assume that as a liability until the year it belongs to.

Q.—How much does that amount to? A.—$200.

Q.—Then there is a substantial item there of eight or nine hundred dollars? A.—$882.98. It is an item of debits of certain commissions and things of that kind that our Winnipeg office took credit for and they should not have done it, it should properly belong to this year's business and it is a matter that has already been disposed of, it merely requires the Journal entries transposing it. We can give you the exact details.

Q.—Why was it carried here at all if not properly chargeable? A.—Our Winnipeg office took credit for it and it is charged pending explanation.

Q.—I notice you have some items there which would indicate that the company has owing to it sums of money from many people, small amounts? Are they agents? A.—Yes, all agents.

Q.—Are any of them officers or clerks in the company's employment? A.—I don't know, unless it is some balance of travelling expenses and things of that kind.

Q.—Why should they be carried against these parties? A.—F. J. Mitchell, that is an amount owing for printing. They owe us for printing. That is in our solicitor's hands.

Q.—I see you have some amounts here where the company is indebted. Why should the company be indebted to R. Fasken for $1,334.35? A.—That is money due them. I am not sure what it is. I think he put it in there. We had an overdraft at the bank and he put it in about a year or so ago. I cannot tell from this. I might from the book. June 20th, 1905, it has been in nearly a year.

Q.—$1,300, June 20th, 1905. Is that when it was received? A.—Yes.

Q.—What interest is being allowed on that? A.—5 per cent.

Q.—Why is 5 per cent. allowed? A. I don't know anything about it myself. I think Mr. Fasken had that amount; we had an overdraft at the bank and he said we had better put this in, we can pay it back or he can draw it when he wants to.

Q.—It is practically left there during the pleasure of both parties? A. —That is the idea.

Q.—Then there are some other small amounts. Parker $612. Who is he? A.—He is the Secretary Treasurer. That is practically the same way.

Q.—He is an officer of the company? A.—Yes, he was cashier at that time. He put his money in practically at the same time.

Q.—And got the 5 per cent.? A. —Yes.

Q.—And Blincel, who is he? Is that in the same category? A.—Yes.

(At 4.40 p.m., on Wednesday, 20th June, adjourned to 10.30 a.m. on Thursday, 21st June, 1906.)

FORTY-FOURTH DAY.

MORNING SESSION.

Toronto, Thursday, June 21, 1906.

MR. TILLEY: With your Honor's permission I will read a letter that Mr. Shepley has written to Mr. G. H. Allen, President of the Dominion Life Underwriters Association. It bears on a matter that Mr. Shepley has been considering for some time, and that is as to the best way of presenting the case of the agents of the different insurance companies to the Commission. It reads as follows:

"Toronto, Ont., June 21, 1906.
"G. H. Allen, Esq.,
President Dominion Life,
Underwriters Association,
171 St. James St, Montreal,
Que.

Dear Sir,—We have noticed that you are the President of an Association recently formed and called the Dominion Life Underwriters Association.

It seems, from the circular issued by the Association under date 11th June inst., that the objects of the Association are, among other things, to promote such an intelligent appreciation of the difficult questions now engaging the attention of the Royal Commission as will prevent the commission from falling into the errors which are supposed to characterize the work of the New York Legislative Committee.

It is the desire of those who are in charge of the presentation of the insurance situation to the Royal Commission to have all possible light upon the many perplexing problems which confront the Commission.

I should be very much pleased if your Association would at the earliest possible moment appoint a representative Committee, fully charged with the views of your Association, and arrange for a meeting between the Committee, and the Counsel employed in prosecuting the present inquiry, so that the views your Association entertains upon the various questions with which the Commission must deal may be fully appreciated and adequately presented to the Commission.

Please address Mr. Tilley upon the subject. Unfortunately I am obliged to be away during the next two months, but Mr. Tilley and I have carefully discussed the position and he understands it thoroughly.

Yours truly,
(Sgd.) GEO. F. SHEPLEY,
Counsel to the Commission."

There is nothing to be said in addition to what is in the letter except that we would be very pleased of course at any time to have the views of any insurance agent, whether belonging to this Association or not, and any representations they make will be duly and properly considered.

Examination of Mr. Edwin Marshall continued:

MR. TILLEY: Q.—You have obtained so far as you have been able to the papers relating to the first bonus of 5 per cent.? A.—Yes.

Q.—There may have been others, you say, but this circular is all you have been able to obtain up to date? A.—There was not a great deal of correspondence about it. There were meetings which the President addressed, and it was practically unanimous from the commencement.

Q.—This I suppose is a circular letter that was issued at the time? A.—Yes sir.

Q.—It is dated 28th October, 1903, and addressed to J. L. Hughes, Esq., and signed by Mr. Clarke (Reads letter). Attached to that is the form used for the 5 per cent. bonus? A.—Yes.

Q.—It is addressed to the Manager of the Bank of Toronto. (Reads). That was the form used by shareholders to hypothecate their shares to the Bank of Toronto as security for the amount the bank would advance as their share of the 5 per cent. bonus? A.—Yes.

Q.—That same principle was adopted when the 6 per cent. bonus was paid? A.—Yes.

Q.—And they pledged their shares again to the bank, those who were not ready to pay money but were willing to go into the scheme? A.—Yes.

Q.—Attached to the exhibit is another letter to McVeity, a shareholder, (Reads Letter)? A.—Yes.

Circular letter and forms re bonuses marked Exhibit 245.

Q.—You have not a copy of the circular that was issued outlining the plan? A.—I was not able to put my hand on one; I will have a further search made.

Q.—Were you able to find the agreement with Mr. Clarke regarding the commuted commissions? A.—I think that a copy was taken down to our

solicitors, and I have asked them to make a search for it.

Q.—Failing the obtaining of that was the nature of the transaction exactly as outlined by Mr. Fasken in his evidence yesterday. Did he correctly outline the arrangement? A.—Practically, yes.

Q.—Is there anything you can add by way of further information or explanation? A.—With the exception that a list of the business in respect to which commuted commissions were granted was largely on business written by myself and the directors, on which no commission was otherwise payable.

Q.—So that the agreement made a commission payable on certain business written by yourself and other directors or officers of the company? A.—Certain of the directors agreed one with the other that they would turn in a certain amount of business.

Q.—To make up a fund of commissions? A.—Yes.

Q.—Which would go to help out this note? A.—It was practically distributing the expense over a certain number of years. They assumed the sole liability.

Q.—Do the directors of the company get commissions on any business they bring in now? A.—They are treated exactly the same as all other policy-holders and shareholders.

Q.—That is not giving us much information? A.—Any business they bring in they are allowed commissions.

Q.—I suppose if I took an application for a policy I could get a commission myself? A.—Yes.

Q.—On a single application? A.—Yes.

Q.—It has got to be a species of brokerage? A.—Practically.

Q.—And that would apply whether a director or any officer of the company did the same? A.—Yes.

Q.—I suppose if you get an application to-day you are allowed a commission? A.—Yes.

Q.—Of how much? A.—I am allowed the same commission as an ordinary agent would be on the first year, no renewals.

Q.—That would be 75 per cent. graded down? A.—Yes, but no renewals. That was my old arrangement; since the first of the year, and I have been appointed General Manager ——.

Q.—Does that apply to other members of the office staff? A.—Yes, all of them.

Q.—Take this next, supposing I am a policy-holder in your company, with my name on the books as a policy-holder already, and some energetic clerk in the office discovers my name there and comes to me and induces me to write another policy in the same company, would he get a commission on that? A.—Yes.

Q.—So that anything that the employees in the office obtain by way of application they are given a commission upon? A.—Brokerage commission, no renewals.

Q.—The top commission is 75 per cent., and that is graded down? A.—Graded down to 40 per cent. on ten year endowments.

Q.—That would only apply to applications they brought in themselves? A.—Yes.

Q.—Do you get any commissions in respect of applications brought in by any other person than yourself? A.—Not unless I was instrumental in getting it.

Q.—Unless you were a party to getting it? A.—Yes.

Q.—You mean to give some actual assistance? A.—Yes.

Q.—But there is no arrangement whereby you get a commission on any person else's work? A.—For about twelve years my contract allowed me 10 per cent. commission.

Q.—On what? A.—On business I got personally.

Q.—What do you mean by 10 per cent. commission; 10 per cent. on what? A.—On the premiums.

Q.—The first premium and renewals? A.—No, the first year only.

Q.—What do you get now? A.—For the last two or three years I have been treated the same as the ordinary office hands, in consequence of the small salary I was receiving.

Q.—Was your salary reduced? A.—No, the salary up to the year before last was only $1,800 a year.

Q.—Up to the year before last you got $1,800 a year and 10 per cent. on the first premiums? A.—Yes.

Q.—Now you get what? A.—I don't know, I received an intimation at the time of my appointment as General Manager that there would have to be some new arrangement.

Q.—What salary do you get now? A.—$2,500.

Q.—And the new arrangement, I suppose, would mean an advance on that? A.—Probably.

Q.—That would be your understanding, you would not want it cut? A.—It was intimated by the Board that, instead of drawing commissions as heretofore, I should either have an increase or a bonus.

44th day, June 21, 1906. Excelsior Life. (E. Marshall, Ex'd.)

Q.—You have been getting $2,500 and 75 per cent. on first premiums graded down? A.—Yes.

Q.—Now, there has been nothing definite arranged as to any change that is to be made? A.—No.

Q.—But you understand some change will be made whereby the possible commissions received will be commuted in some way, and you will be given a bonus or additional salary in respect of that? A.—Yes.

Q.—What would your 75 per cent. of first premiums amount to during the time you have been getting them? A.—I don't suppose they would amount to over two or three hundred dollars a year.

Q.—After you take out the rebates, I suppose? A.—Yes.

Q.—I suppose you would have to give rebates? A.—No, I think I have only given one or two rebates in my entire career with the company.

Q.—To what extent would you rebate, 50 per cent. and the whole premium? A.—In one case, 5 per cent., and I think the other was 50; that is all I can recall.

Q.—You have never given as you have received? A.—No.

Q.—You have never given the whole premium? A.—No. (The accountant speaks to Mr. Marshall).

Q.—Does it turn out you were wrong? A.—No, he was telling me the minute book in which I think that circular letter is that you inquired about, is in possession of the Secretary of the Commission. I asked the accountant to look up the minutes to see if there was a copy of that printed circular you were inquiring about attached, and he tells me the books are in Mr. Ross's possession.

Q.—You were to prepare a statement showing the loadings? A.—I have it here.

Q.—And you have stated how the loadings are computed; it was on the Hm. 4½, and the principal plans are set out; it runs from 15 per cent. plus $3 to 20 per cent. plus $3? A.—Yes, that is on the old Hm. 4½.

Q.—On the new 3½ basis it is 20 per cent. and $3? A.—On all the life plans.

Q.—And 17½ and $3 on the ten, fifteen ad twenty-year endowment plans? A.—Yes.

Q.—And 20 per cent. and $3 on the twenty-five and thirty-year endowment, and also on the endowment at seventy? A.—Yes.

—Statement showing loadings marked as Exhibit 246.

Q.—In 1904 the additional stock was issued? A.—Yes.

Q.—I understood Mr. Fasken to say that during that year they could have so conducted the business that there would not have been any impairment of capital? A.—We could have written less business.

Q.—By not expanding it as rapidly as you did there would have been no impairment; but with the expansion of business there was, or there would have been, an impairment of capital had you not got the 7½ per cent. bonus? A.—Yes.

Q.—That is you got the 7½ per cent. bonus ——? A.—There would not have been an impairment, but there would have been only a small surplus.

Q.—I think there would have been an impairment, would there not? A. No, sir.

Q.—Your surplus in 1904 was just about $9,000? A.—I thought you had reference to last year.

Q.—No, I was taking 1904? A.—I beg your pardon; $9,341.05.

Q.—That was your surplus after getting the 7½ per cent. bonus? A.—$11,000; we would have had an impairment of about $1,500.

Q.—If you had not had that bonus? A.—Yes.

Q.—Then, besides the bonus you wrote up the value of the building in that year some $10,542.25; so that without those two items the increased value of building and the bonus, there would have been an impairment of about twelve or thirteen thousand dollars? A.—Yes, that would make approximately $12,000.

Q.—What means did you take to ascertain whether that building was worth the additional amount? A.—We obtained a valuation from F. J. Smith & Company. I have a copy of his report here. There is also the valuation of Mr. Butler.

Q.—You had valuations made by real estate men? A.—Yes, sir.

Q.—Did the Government have a valuation made? A.—Yes.

Q.—Was it on the basis of these valuations made that the property was put at $10,000 more? A.—It was on the basis of our own.

Q.—What did your own valuators place it at? A.—We have one valuation at $43,500. We have another one. Mr. Smith's valuation, I understand, was the one we took it in at, which was less than the Department's, I understand.

Q.—The mortgage on the building was what? A.—Our purchase price

44th day, June 21, 1906. Excelsior Life. (E. Marshall, Ex'd.)

represented the first mortgage; there was a second mortgage also.

Q.—You paid $1,000 in cash? A.—Yes.

Q.—And assumed the mortgage? A.—No, we gave the mortgage.

Q.—For how much? A.—The balance of the purchase price.

Q.—That was $21,000? A.—$24,000, it has been reduced since.

Q.—That is what brings it down to $21,000? A.—Yes.

Q.—In your account what did you first put the building at? A.—What we actually paid for it.

Q.—Including the mortgage or excluding the mortgage? A.—We took the balance, our equity.

Q.—So that you put in your accounts the value of the equity you had in the building after you put a mortgage on it? A.—Yes.

Q.—Why did you do that rather than put in the value of the building and show the liability of the mortgage as one of the liabilities of the company? A.—I think it is customary for companies when they own property to put in their equity.

Q.—To put in their equity as the asset? A.—Yes.

Q.—You carried it at that till 1904 when you had it valued? A.—Yes, we had greatly improved the building, and the rents were three times what they were when we purchased it.

Q.—And the Government also had it valued? A.—Yes; they had two valuators.

Q.—Who were they? A.—I only know one, that was Mr. Small.

Q.—Do you know what value they put on it? A.—No, it was substantially more than what we took it in at.

Q.—You think that increase in value in 1904 was justified by the valuation that was made? A.—We purchased the property when real estate was very much depreciated in that locality. I understand the property had sold some years ago at $60,000.

Q.—It was bought by you in 1902? A.—Yes.

Q.—And your purchase price would be about $25,000 all told, mortgage and all? A.—$25,500.

Q.—And then you say owing to the appreciation in the value, and you also say something about improvements A.—Yes.

Q.—I suppose the improvements were kept track of besides the additional value you wrote it up? A.—Partly.

Q.—Not entirely? A.—I know there are lots of improvements that were charged to revenue account; we only charge such improvements to the actual structure of the building to capital account.

Q.—You charged I suppose to capital what would fairly be treated as an expenditure for capital, and to the expense account what was fairly chargeable just by way of maintenance? A.—Yes.

MR. LANGMUIR: Where is the building?

MR. TILLEY: The building is opposite the Freehold on Victoria Street? A.—Yes, 59 and 61.

Q.—What was it called before you took it? A.—Victoria Chambers.

MR. LANGMUIR: It is leasehold? A.—No, freehold.

MR. TILLEY: The property now stands at $42,974? A.—Yes.

Q.—And it cost you $25,500? A.—That is what it originally cost us.

Q.—I notice you have one security that is on a reversionary estate? A.—Yes.

Q.—Have you more than one? A.—No, it is only on one estate.

Q.—Have you had other loans of the same kind? A.—No.

Q.—It is a loan on the interest of a beneficiary in an estate? A.—Yes.

Q.—How much is the amount you now have by way of advance in that way? A.—We have taken credit for the amount we have actually paid out plus the interest that the agreement calls for.

Q.—And you have treated that as the amount of the loan; what does that amount to now? A.—$33,545.21.

Q.—That is the amount of the advance? A.—Yes.

Q.—And the security is a share in an estate? A.—Yes.

Q.—What I wanted to ask you about that was just from this view, do you regard that as an investment coming under the Insurance Act? A.—Certainly.

Q.—Under what clause of the Insurance Act? A.—There are practicaly two transactions.

Q.—I want to know under what part of the Act you would bring that class of investment? A.—It is involving the insurance of life, the annuity which we grant comes under the head of life insurance.

Q.—Do I understand the transaction involves a definite certain

amount per annum by way of annual payment? A.—Yes.

Q.—And you are secured for that annual payment by the assignment of the interest in the estate? A.—Yes.

Q.—What I wanted to know is this, do you class that as a loan on real estate or a loan on a policy? A.—A loan on real estate.

Q.—How is it a loan on real estate, have you any real estate assigned or transferred to you as security? A.—We have an equity, the reversionary interest in real estate.

Q.—That is the estate of which you are entitled to a share as security holds a lot of real estate? A.—Yes.

Q.—Do you regard that then as being a security on real estate within the meaning of the Act where no actual real estate is assigned or transferred to you? A.—Such is our interpretation after consulting our solicitors.

Q.—As I understand there is no specific portion of real estate mortgaged? A.—No; as a matter of fact our equity or mortgage only represents about 25 per cent., I understand, of the value of the party's interest.

Q.—That is to say your advance does not represent more than one-quarter of the annuitant's interest in the estate? A.—That is what I understand.

Q.—That is to say the security is more than ample? A.—Yes.

Q.—I am not criticizing it from that point of view; I just wanted to know whether in connection with that security there is any specific piece of real estate mortgaged to your company? A.—No.

Q.—If there is no specific mortgage on real estate you can hardly class that as a security on real estate, can you? A.—In our report to the Government it is shown separate. In our report to our shareholders we include it in the mortgages,

MR. LANGMUIR: Does the assignment of the interest of the estate specifically set out real estate? A.—It contains an inventory of all the property comprising the estate.

Q.—Is the interest assigned, and the real estate specified in the assignment so that the document can be registered? A.—The entire interest of the party in the property is hypothecated.

MR. TILLEY: The entire share in the estate is assigned and transferred to you, but there is no specific charge of the debt on a specific piece of property, in a way that it is registered in the Registry Office, made a security in that way? A.—No.

Q.—Because your annuitant has no specific property owned as yet? A.—No.

Q.—It is just an interest in the whole estate? A.—Yes.

JUDGE MacTAVISH: An undivided share?

MR. TILLEY: A defined share, but an undivided share.

JUDGE MacTAVISH: I suppose the company claims it is right under sub-section 2 of section 50. (Reads). It seems to be pretty wide.

MR. TILLEY: It is rather a broad clause, and I assumed that was the clause it would be put on. I want to bring out the fact that this transaction involved treating as security something that could not be registered as against real estate.

MR. LANGMUIR: Would a judgment against the party who has given the assignment take priority to the claim?

MR. TILLEY: A judgment, of course, would not take priority to the claim, because creditors would all share equally, the judgment creditor and this annuitant as well, but the question is hardly that ——

JUDGE MacTAVISH: Notwithstanding the assignment?

MR. TILLEY: I understood Mr. Langmuir to be referring to any specific item of real estate. The assignment of the general interest in the fund in the estate would come first.

Q.—That is a common investment in England? A.—And I believe some of the Canadian companies have it.

Q.—More common in England than here? A.—Yes.

Q.—Do you regard it as a safe and proper class of investment for insurance companies to make? A.—Yes, perfectly so.

Q.—Is there insurance coupled with it? A.—Yes.

Q.—The insurance of the annuitant coupled with it, so that your security consists of hypothecation to you of the whole of the annuitant's share in the estate, and then the life of the anuitant is also insured, so that if death occurs before your claim becomes due you get paid out of the insurance? A.—That is the theory of it.

Q.—You say that is a common class of investment for insurance companies in England? A.—Yes.

Q.—Very common? A.—Yes.

Q.—But not so common here? A.—No.

44th day, June 21, 1906. Excelsior Life. (E. Marshall, Ex'd.)

Q.—In your opinion that is a class of investment that might very well be allowed if there could be any question about it? A.—Yes, perfectly secure investment.

Q.—I am not saying, of course, that section 2 does not cover it, even as it stands? A.—Our solicitors interpreted the Act as allowing us to do so. I think they based their judgment on the Ontario Insurance Act.

Q.—Under which you were operating for some years? A.—Yes.

Q.—You had some sort of transaction with a mercantile agency company? A.—We did, in a small way; they wanted to make arrangements with the Excelsior for insuring certain merchants, or the customers of certain merchants, with whom they did business.

Q.—Had you any plan evolved to carry that through? A.—We had a plan outlined but it was dropped after we had sold them a small amount of insurance.

Q.—How much insurance had you sold the mercantile agency? A.—Probably $50,000, on which we received the first month's premium. The thing was abandoned because they could not

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Q.—Have you the papers here? A. —No, I could produce them in short order.

Q.—I would like those; just outline the scheme? A.—The scheme was not ours.

Q.—What was the agency company? A.—The scheme was not ours; the agency company was a company established for making arrangements with merchants to insure their customers. My directors refused to have anything to do with it, but we finally agreed to sell them the insurance protection on certain conditions, which involved a cash payment over the counter for the insurance before it could be granted. That company discontinued business after a few months' operation owing to lack of capital.

Q.—The company is not in existence now? A.—No, it was only in existence two or three months.

Q.—Did it carry on business with any insurance company except with your company? A.—I am not aware it did; it practically discontinued business owing to lack of capital.

Q.—Were persons who were directors of your company directors of this mercantile company? A.—No, no association whatever.

Q.—No community of interest at all? A.—No.

Q.—It was an independent organization? A.—Yes.

Q.—And it was trying to effect insurance on customers of wholesale houses? A.—Yes, and retail, too, I understand.

Q.—Who would pay the premium, the mercantile agency? A.—The mercantile agency would pay the premium to us; that is all the connection we had with it.

Q.—Where would the mercantile agency get its money? A.—From the wholesale or retail merchants.

Q.—Let us assume it is the wholesale merchant, from the wholesale merchant whose customers' lives are insured? A.—Yes.

Q.—Did you insure each customer on his own merits, or was it a blanket policy of insurance? A.—Each on its own merits.

Q.—Was there a medical examination? A.—Not in the case of small policies.

Q.—What would you say was a small policy? A.—A policy less than $500.

Q.—Was there any application by the customer for insurance? A.—Yes.

Q.—Any application form filled out by him? A.—Yes.

Q.—But he did not pay the premium? A.—No.

Q.—What rate or tariff did you give to the mercantile agency for this class of insurance? A.—The rates were substantially greater than the ordinary rates.

Q.—Why would they be greater? A. —Because of there being no medical examination in the case of the smaller policies.

Q.—Was there a medical examination over $500? A.—Yes.

Q.—Was there any policies over $500? A.—As a matter of fact we never issued one; there was only about, if my memory serves me right, thirty or forty or fifty dollars of insurance sold.

Q.—It never amounted to more than that? A.—No.

JUDGE MacTAVISH: I thought you said $50,000? A.—That is for one month; that would be a pretty good premium on $50,000 for one month.

MR. TILLEY: Was it term insurance? A.—Yes, not renewable.

Q.—And that has all expired? A. —Yes.

Q.—You are not continuing any of it now? A.—No.

Q.—So far as you know the mercantile agency has come to an end? A

44th day, June 21, 1906. Excelsior Life. (E. Marshall, Ex'd.)

—Long ago; they were in existence only two or three months.

Q.—Will you show me the clause in your policy or in your charter that defines the right of a policyholder to profit where he is in a participating class? A.—There is no clause in the Ontario Insurance Act.

Q.—There is no clause in your charter? A.—No.

Q.—Show me the clause in your policy that gives him any right; here are some policies? A.—(Indicates).

Q.—Does this policy number 13,705 contain a statement as to the rights of the participating policyholder as plainly as any policies you issue? A.—No.

Q.—I would like to have the plainest contract you have with the insured showing his right to profits? A.—There are other policies than these. These ones are unusual policies, and very few of them are issued. There are two of those non-participating.

Q.—You have a clause 7 here in policy number 12,226 which provides the company shall not be liable under his policy unless within 12 months of the date of the death of the insured the person making claim thereunder has furnished proofs satisfactory to the company at their head office of the death of the assured during the continuance of the policy— is that a com mon clause? A.—I think that is a statutory requirement.

Q.—That the death must be proved within 12 months or else lose all right to the policy? A.—If my memory serves me right that is a clause of the Ontario Insurance Act.

Q.—Not a clause you are bound to put in? A.—No.

Q.—Is it a common clause with your policies? A.—I think it is.

Q.—Is it a clause you have ever insisted on? A.—We have never had occasion to avail ourselves one way or the other.

Q.—It is conceivable that that might work a great hardship on claimants under a policy? A.—We have never found it necessary to utilize it in any way.

Q.—Can you tell me any use it is for the proper protection of the company? A.—It is a pretty general practice in the United States, the companies there found it necessary in order to protect themselves; I do not think any company would utilize it if it was shown it worked a hardship.

Q.—You were going to refer me to the strongest clause you had in your policy showing the right of the insured to profits? A.—(Shows). This policy is a ten year endowment.

Q.—You have taken a policy called ten year endowment accumulation dividend plan, and this provides as follows: "This policy is issued on the accumulation dividend plan," the conditions of which are as follows:

"That the accumulation period shall be completed on the first day of November, 1915; that no dividends or profits shall accrue, be apportioned, or be payable on this policy unless the assured survive the completion of such period, and unless the policy be then in force; then on the completion of the accumulation period before mentioned the insured (with or without the consent of the beneficiary) shall be entitled to either one of the following:"

Then it gives certain options:

"1. Withdraw the face of the policy and in addition the profits that may be apportioned by the company thereto.

"2. Obtain for the total cash value a fully paid-up life policy. This option is subject to a certificate of good health.

"3. Purchase with entire cash value an annual income payable during the lifetime of the assured.

"It is understood and agreed that the assured shall notify the company of the option selected within three months after the completion of the accumulated period, otherwise the company shall have the unquestioned right to select the option in settlement."

Q.—Is that the plainest clause you have got in your policies as to the assured rights to profit? A.—Yes.

Q.—This does not say what profits he is entitled to at all, does it? A.—You cannot mention the profits, the amount.

Q.—No, but you can say whether it will be a certain percentage of the profits in his class. A.—He will get his share.

Q.—It does not say anything about his share, it says that no dividends or profits shall accrue, be apportioned or be payable on this policy unless the assured survives the completion of a certain period. That is the main part of the clause. Then it says that on completion of the period he shall be entitled to, the first one is, "withdraw the face of the policy and any addition of profits apportioned by the company." That is to say, at the end of a certain time he is to get the face of his policy and such profits as the

44th day, June 21, 1906. Excelsior Life. (E. Marshall, Ex'd.)

company gives him, that is the whole of his contract, is it? A.—The whole of his contract.

Q.—And from the date, I think you told me yesterday, that that policy is issued, until the date his policy becomes a claim or that these profits are to be paid to him, there is nothing done in the way of keeping an account or showing how his policy is progressing or what profits he is getting? A.—Not as between the assured and the company.

Q.—And there is nothing to prevent you at the end of the period, whenever that period comes, fifteen or twenty years hence, to give him just as much or as little profits as you please, and that is taken out of a common fund which, up to that time, has not been apportioned to him at all? A.—It has been apportioned to him in the accounts of the company.

Q.—Will you show me the accounts where that is apportioned? A.—I have a memorandum here of a distribution now being made.

Q.—What I would like, Mr. Marshall, is something to show what right a policy-holder would have at the end of his period to say to the company, you have not dealt properly with me about profits, because so far as I can see in none of your policies do you tell him that he has any particular right to profits except what you may choose to give him? A.—If the Excelsior or any other company did not treat their policy-holders right in that or any other matter they would soon be out of business.

Q.—Is it right to leave a man in the position that all he is entitled to is that he may have what you must pay him in order to make good advertising for the company, instead of bad advertising? A.—They must treat him fairly to retain their existence.

Q.—I don't know; we have had a good many complaints about the division of profits. Not about your company, I will say that, but about other companies, and what I would like to ascertain is what is it in the policy that defines the man's rights, is it just a gratuity or something the company may choose to give him in order to not get into bad repute, is that all the claim he has? A.—I see no reason why a policy, even on the deferred dividend plan, should not receive a statement of profits continually.

Q.—Supposing I am a deferred dividend policyholder in your company and I come in and ask you to-day or at the end of a five or ten year period and say show me how my account stands, what can you show me? A.—I can show you what has been allotted to the quinquenial policyholders in the same class. That is a definite amount that you are entitled to.

Q.—There is nothing that transfers that to me. A.—No, because we would have to assume it immediately as a liability.

Q.—And you would not do that? A.—We would not do that.

Q.—So that as to my policy I may ultimately get more or less than that? A.—You are bound to get as much.

Q.—Why? A.—Well, I think the company is under obligation to that extent.

Q.—That is to say if you give a man to-day \$50 and my policy is in existence you must give me \$50? A.—Certainly.

Q.—Could you ultimately give me \$60? A—.You would be entitled to more than the \$50, more than the quinquennial man because you would be entitled to the share of those who drop out.

Q.—Supposing the policies are the same in that regard? A.—No, we could not do that.

Q.—Why couldn't you give me more? A.—It would not be proper.

Q.—What is there in your treatment of your policyholders that establishes that? A.—We allot the same profits to all policyholders of the same class.

Q.—Will you show me anything in your policies that requires you to do that? A.—It is not in the policy. We would have to compute by actuarial methods an amount of profits which each policyholder in each class is entitled to.

Q.—You do not even say that he shall get his share of the surplus funds according to the division of profits made by the company; so far as I read your policy it is just a promise to pay him whatever is allotted to him by the company. If there is anything that binds you to treat them all alike or make regular declarations of profits and divide them among the policyholders, I would like to know where it is to be found? A.—The policyholder is entitled to the profits which have been apportioned to the policies of that class.

Q.—Will you show me where that is? A.—Well, in this plan here, the profits apportioned to this debenture.

Q.—What are you reading from now, another policy? A.—I think it is practically the same in all those.

44th day, June 21, 1906. Excelsior Life. (E. Marshall, Ex'd.)

Q.—"The cash value, being guaranteed commuted value, and in addition the profits apportioned to this debenture?" A.—Yes.

Q.—That does not say to policies of a certain class or anything else? A. —I see no reason why it should not be more specific.

Q.—It is probably a fault in drawing the condition up, you say? A. —No, that is practically the way I think you will find that nearly all the companies have them. I am not going to draw comparisons, of course.

Q.—I do not say that that is so, but what I want to point out is that the policyholders' rights and profits seem to be left very indefinite by all companies and they do not keep, at least the majority do not, any account so that he can find out from time to time where his policy is with regard to profits? A.—He could be given approximately how he stands.

Q.—Why should he not have it accurately, to that extent, you are trustees for that policyholder? A.—Well, on deferred dividend plans it would be impossible to let him know definitely, as I have explained.

Q.—Why? A.—We could tell that man there is so much bonus addition or cash allotted to policies of his class on a certain division.

Q.—Why could not an account be kept so that he could be told that any time he wants to know it? A.—I see no reason why it should not.

Q.—Except the reason you have given, that when you would regard the company as owing him that money, and why should you not, if it has been earned? A.—It would be all right if we were not required to assume that as a liability.

Q.—Why should you not assume it as a liability if his policy has earned that amount? A.—I am speaking of my experience with a young company. It would practically rule all young companies out of business because they could not give profits on those bases for perhaps 10, 15 or 20 years.

Q.—Well, that is the way the matter stands at any rate. Then I will put in the claim papers of this company to show what is being required. (Exhibit 247.) Then I will put in a memorandum that I have prepared showing the income and expenditure of the company for nine years, from 1897 to 1905. This is not made up as your statement but it is a totalling of your different items. First comes the net premium income; then the amount received for interest or dividends on stock; then receipts for rents, calls on capital, bonuses on capital, premiums on capital, and shows that the total income of the company since receiving a Dominion license has been $1,601,021.27. The total expenditure of the company, made up of various items, including death claims, annuities, surrenders, cash dividends to policyholders, commissions, agency expenses, medical fees, advertising, printing, taxes, rents, dividends to stockholders and sundry expenses, totalling $875,947.59. (The statement referred to filed as Exhibit 248.) If you find anything wrong about those figures, let me know. If you take out from that statement the expenditure representing payments to policyholders and stockholders, taxes, licenses, the expenses that would remain as chargeable to the getting of business would amount to $591,543.81. That would be the expense from those nine years for getting policies for the company? A.—And retaining the old.

Q.—Yes, and retaining the old. Then the premium income during that time is $1,335,499.39. The total income $1,601,021.27. So that the expense of getting business, of writing the business and so on would be 44.6 per cent. of the total premium income during the nine years. Now would you or not consider that an expense of 44 per cent. to get the business is not a very heavy expenditure of the receipts of the company? A.—Not for a young company of our age, I would consider it moderate.

Q.—What should an older company expend then? A.—The ratio between expenses and premium income should decrease with the age of the company.

Q.—How low should it get when the company is on a sound permanent basis? A.—Well, that would depend in a measure on whether it is a company that is pushing for new business or not. Some of the old English companies get down to, perhaps, 10 or 12 per cent., whereas companies of the same age actively pushing for business may be up to 25 or 30 per cent.

Q.—Your general expenses would be 36.9 per cent. of your total income including receipts from interest and from other sources, over one-third going out by way of expense, not taking into account anything that you

44th day, June 21, 1906. Excelsior Life, (E. Marshall, Ex'd.)

pay out to the stock or policyholders, death claims or anything of the kind; over one-third goes out for the expense of getting the business. That seems to be unduly high, Mr. Marshall; I am not saying unduly as compared with other companies of your age, but from a sound insurance standpoint it would seem to be high? A.—We must all admit that expenses are higher than we would like to see them. We cannot get business under existing conditions any cheaper.

Q.—The Excelsior Life cannot in any way get business on a better basis? A.—I don't think so, under existing conditions.

Q.—The existing evil being what? A.—Well, there has been an increase of 40 per cent. in Government and Municipal taxes in the past; and medical fees have increased; in a large number of cases where we were formerly paying $3 we require to pay $4 or $5. And the rebating accounts for considerable.

Q.—Can rebating be prevented by the companies getting together or is it something that can be prevented by legislation? A.—There have been efforts made in that direction but it appears to be impossible to get all the companies to work in unison.

Q.—Then you say it is hopeless to get the companies to work together? A.—Unless we can get the Government to assist us.

Q.—How? A.—Probably by penalizing all parties. I think that would put a weapon in the hands of the companies that would enable them to stop rebating.

Q.—You think the companies should have a club of that sort? A.—I think so.

Q.—The expenditures are more than is proper for the proper carrying on of the business and you say the companies cannot control their own business? A.—In my opinion, no, they cannot. We have got to do the same as the agents of other companies do, or do without the business. If we are competing for business and another company offers a rebate, we have to meet the same rebate or lose the business.

Q.—Your general expenses for 1905 were $109,347.41. Your new premiums were $56,198.39. That is your expenses for 1905 were 151.1 per cent. of the new premiums. Now isn't that very high? A.—I don't think you have taken into consideration the outstanding and deferred premiums in that calculation.

Q.—I am taking it from your returns. A.—That would be probably the premiums received in cash.

Q.—What would your expenses be compared with your first year's premiums? A.—We have the first year's premiums here, $76,812.32.

Q.—That would include the outstanding premiums, I suppose? A.—Yes.

Q.—That would make the percentage how much? I notice that you rather advertise your low expense of management and your low cost of new business, you rather make a point of that in your new literature. A.—I only know two companies whose expenses in getting new business are less.

Q.—Notwithstanding the expense you are put to, you say there are only two companies that are lower. You mean two Canadian companies, I suppose? A.—Yes, I make it 117 per cent.

Q.—117 per cent. of the new premiums? You issue a policy where the profits are used to reduce the term of the endowment, do you not? A.—Yes.

Q.—And where the endowment is to be at age 70 I think you compute a person entering at 35 that the profits will reduce the endowment by 12 years, that is bring it from 70 to 58. Can you say whether that is so? A.—That is the original estimate, I think, when that plan was first issued 15 years ago.

Q.—Have you changed the estimate? A.—Yes.

Q.—By reason of what? A.—In my opinion the original estimates were too liberal.

Q.—I suppose that all companies starting are apt to issue too liberal estimates and too low premiums, are they not? A.—I think we were all transgressing in that respect at that time.

Q.—What is your estimate now for that same policy? A.—Eight years.

Q.—It was 12 and you have reduced it to eight in your estimate. Do you think the eight will be realized? A.—Yes, we have reasonable grounds for estimating that it will.

Q.—Is it fair to say that you have revised your estimates? A.—Yes.

Q.—Do you think that companies should send out these estimates or should they be prevented from doing so? Are they not used as you have said by young companies? A.—No, I do not think the young companies are always the transgressors.

44th day, June 21, 1906.

Excelsior Life, (E. Marshall, Ex'd.)

Q.—But yours is getting to be an old company now? A.—I am speaking of the time we drew it up. There was not very much difference in the estimates, they were all practically nearly the same.

Q.—I suppose if they put out estimates, every company is practically obliged to estimate the same as its competitors? A.—It would be rather an unwise thing to estimate any lower.

By MR. GEARY:

Q.—I was asking Mr. Fasken in regard to the organization which you put up at the commencement of the company. Were you instrumental in getting that together? A.—My services were engaged to float the stock in the company's initial stages. The old Protestant Life had been established or organized I think six or twelve months. I don't know anything about the original company.

Q.—You don't know anything about the steps that were taken to get the original agents? A.—Yes, I got a number of them myself.

Q.—Were they trained men? A.—In nearly every case. Our first superintendent of agencies had had considerable experience in insurance matters.

Q.—But I mean the ordinary field men, the agents who get the business personally, did you get trained men? A.—We got trained men to select local agents.

Q.—The local agents are the men I am speaking about, the men who actually canvass the business, were they trained men when you got them? A.—In some cases they were and in others not.

Q.—Out of employment or working for other companies? A.—As a rule local agents are men who only work during their spare time. They might be representing fire companies in some bank or commercial employment.

Q.—Not necessarily a life insurance man to start with? A.—No, not necessarily.

Q.—You would have these men solicit business not previously knowing much about it? A.—They would all be trained up.

Q.—What steps do you take to train a new man? A.—We send a superintendent of agents or an inspector to go around and canvass his prospects. The experienced man would do all the talking until the local agent got proficient.

Q.—Would you give him special directions as to bringing clearly to the understanding of the applicant the terms of the policy? A.—Well, our rules, our instructions, in our manual always give that.

Q.—As to explaining definitely, reading over the policy? A.—He could not misunderstand.

Q.—When it comes to a question of estimates or predicting profits or benefits to come from the policy, is it explained to the applicant what an insurance premium really means, what it goes for? A.—He understands that a portion of his premiums will be returned should he desire to withdraw from the contract after he has paid three or more.

Q.—That is hardly the question, I mean the premium that he pays, the level annual premium? A.—The distribution of it between expense, reserve and so on?

Q.—Yes? A.—Oh no, I don't think that is the custom.

Q.—Then it would be fair to say that he does not know? A.—Unless he has been so educated that his education would teach him that himself.

Q.—But in ordinary cases he would not know? A.—I don't think any business man would know or have taken that into consideration at all.

Q.—He does not know what part of the premium is required to bring the face value of the policy at its maturity? A.—I don't think one party in a hundred who is canvassed would know.

Q.—Don't you think having regard to the fact that they expect profits, they should know on what the profits are based? A.—You are speaking now of the premium?

Q.—Of the premium, sir, yes? A.—My opinion is that not one in a hundred knows how the premium is allocated to the different accounts.

Q.—Then how can he know or check off in any way what he should get by way of profits? A.—Well, the custom of our company is in a great measure to show what we have paid on that class of policy.

Q.—I will throw this out as a suggestion, would it be a hardship on the companies to ask them to append to the policy a short statement showing the net premium, the loading, what it is for and possibly the three or four avenues through which that premium may be improved and what rate of interest it is to earn? A.—I see no objection.

Q.—Do you see any use? A.—I don't see that it would serve any useful service.

44th day, June 21, 1906.

Excelsior Life, (E. Marshall, Ex'd.)

Q.—It would tell him how his premium is made up? A.—It would be more apt to confuse him.

Q.—You think he is better left in absolute ignorance? A.—A great many people consider when you mention 3½ or 4 per cent. reserve in their policy, some people interpret it that that means that they can get their premium returned with that rate of interest.

Q.—You agree that they should know? A.—Well, it is pretty hard to enlighten some people.

Q.—Then you think they should be left in blissful ignorance? A.—I don't think if you explained a thing thoroughly to them to-day and went back to-morrow that they would know a thing about it. I mean some people, people in the rural districts, for instance.

Q.—Now there are disputes constantly between the company and the policyholder as to the profits that have been declared to him; you know that as a matter of general knowledge, whether it has occurred with you or not? A.—We are rather explicit and emphatic in our instructions to agents that they should clearly explain the policy before its delivery, so that a man will know exactly what he is getting, the nature of the contract in every respect. It is read over to him.

Q.—But not that he shall know what he is paying? A.—He knows what he is paying in the first place.

Q.—But not what he is paying it for? A.—He knows that he can draw a cash surrender value, that he can get a paid-up policy and he knows the amount.

Q.—He does not know the amount, if you will pardon me, because that is where the difficulty lies in these controversies between them? A.—In our policies they are given, all he has to do is to ask for them at any time.

Q.—That is the guarantee amounts, but the estimates are wrong as a matter of fact. Then you think it would be of no use at all to append a statement to the policy stating shortly what the net premium is, what rate it is supposed to earn to produce the value of the policy and then what the loading is and how profits might be made? A.—It might be advantageous to an educated or intelligent man.

Q.—I think you might make it so plain that the wayfaring man might understand it? A.—Probably it could be done, as I said before, I see no objection.

Q.—It is a thing brought to my mind by the provision of the Hoyle Bill. It seems to me that a difficulty has been encountered there and that something of that kind might be useful. You get men who improve during the course of their employment as agents? A.—Yes.

Q.—Do they get any better commissions as they improve? A.—No, except that they get a larger field of operations.

Q.—A larger field of operations is how you reward them? A.—As a rule.

Q.—But not by a larger commission? A.—No.

Q.—Or by a bonus? A.—No.

Q.—Do you ever give a bonus for attaining a certain point in the year's business? A.—It never exceeds 75 per cent.

Q.—But in addition to commission do you offer an agent a bonus providing he writes so much insurance in a year? A.—We have done that. There is always a limitation to the cost though.

Q.—Don't you think that is rather provocative of rebating in itself, that a man gets close to his number towards the end of the period? A.—I think it has objections.

Q.—You think it would, as a matter of fact, you know that towards the end of the period it is pretty well drawn out? A.—We have discontinued it for that reason.

Q.—Do you find that your agents complain that they are under a disadvantage in working against agents of a larger company? A.—No, because an agent is intelligent—we do not employ any other—and they can point out the relation between assets and liabilities.

Q.—You are at no disadvantage then? A.—No, under none whatever in that respect.

Q.—Then it is not so that a large company could write business without agents, according to your theory? A.—No, I don't think there is any company could, in Canada.

Q.—So that you have no difficulty I presume from that in cases where a larger company might try to get your good men from you? A.—No, they cannot get a man.

Q.—They cannot hold out any inducement to him as to ease in writing business? A.—No, a young company that is firmly established can

44th day, June 21, 1906. Excelsior Life, (E. Marshall, Ex'd.)

get and retain agents as good as an old company.

Q.—And your company is firmly established? A.—Yes, after ten years.

Q.—But during that time? A.—It is a little difficult. They are not advertised throughout the country. There is no organization effected, no renewals for them to collect in the agency, and so on.

Q.—No easy work to do, it is all hard work? A.—Yes, it is all hard work.

Q.—Their work is harder than the work of agents of a company that is firmly established? A.—Yes, I would say so.

Q.—It was said to us one day that the standing of a company, its immense resources and its record would have nothing to do in assisting it to get business? A.—If an agent properly understands the situation, the formation of the different companies, he knows that a young company, without an impairment, of course, can give just as good security as an old company.

Q.—You think the company's strength has nothing to do with it? A.—Size has nothing to do with it, or magnitude of asset.

Q.—Nor results in business that it can advertise. While we are on that point, a matter that has been mentioned before, there is a company in England called the London Life Association, if I name it rightly? A.—There is the London Life, yes.

Q.—It employs no agents and has no shareholders? A.—A stagnant company.

Q.—Not very stagnant. I would like to show you their last report. Their policies have improved, every one thousand pounds policy has improved to £2,386, with bonus additions and they pay 4½ per cent. ratio of expense to premium income. They are not a stagnant company but they are not pushing business in other countries, I admit that. A.—They are stagnant in that sense that they are not developing.

Q.—This company is well nigh one hundred years old? A.—Well, you may find companies in Canada ten years old or a little over that have just as much business and compared to the premium they are giving as good results and their policies are more liberal.

Q.—Are your premiums lighter here? A.—The premiums at the time of the adoption of the new rates were lower than nearly all the British companies.

Q.—They are not now? A.—No, I say prior to the adoption of the present rates. Even now the rates of probably one half the English companies are greater than the new rates of the Canadian companies.

Q.—Is it nothing that the ratio of expense to premium income is 4½ per cent.? A.—That would not show anything. I have not the particulars here, but I could point out a British company that has probably the lowest ratio of expenses to income, but is charging higher premiums and giving less profits.

Q.—I do not know what company you are referring to. That is not the case with the London Life or the old Equitable? A.—I think that is the British Equitable, if I mistake not.

Q.—It runs about 8 or 9 per cent., and the London Life about 4½. A.—Well, you will find that their non-profit rate is higher and their with profit rates are higher than the Canadian companies are now.

Q.—Not according to their list, however, I do not know that I can prove that? A.—I am taking my information from the last British Year Book. I can send that information to you.

Q.—At age 40 the London Life is 25.72 per 1,000. These figures are all subject to verification? A.—Up to about 35 or 40 my recollection is that the Canadian companies' rates are lower both with and without profits.

Q.—Up to that they are lower, and after that they are higher? A.—Probably. But the bulk of the business is written under 40 years of age.

Q.—What factor does advertising play in getting business, do you get business through your advertising directly? A.—Not directly, no. But judicious advertising is essential. It prepares the ground. I do not know of but one case where a man has ever been in to see us directly to insure, and he wanted to insure his father who was on his deathbed.

Q.—You have an item of $3,000 for printing in one year outside of your advertising? A.—That is printing and stationery, that takes in all the office forms and policies.

Q.—You mentioned to Mr. Tilley in regard to the ratio of expense that should be decreasing. Did you make out what it is this year according to your statement? A.—It depends on whether you take the ratio of expense to total business or to new business.

44th day, June 21, 1906. Excelsior Life, (E. Marshall, Ex'd.)

Q.—Well, operating expenses to general total premium income is what you were discussing with Mr. Tilley. You said it should decrease with you now? A.—Yes.

Q.—It has increased as a matter of fact in your company from 1901 to 1904? A.—Not comparatively. That is in consequence of our writing double the business. Last year I think you will find we were writing double the business we were writing three or four years ago.

Q.—Your premium income increased some $30,000 or $40,000 in 1904 over 1903? A.—That would not be a correct guide.

Q.—What would be? A.—The actual amount of business written in the two years.

Q.—What is the difference between '03 and '04, it was 50 per cent, of your premium income as against 47 in '03? A.—Between those two years there is $700,000 in round figures.

Q.—That is practically the difference between the two preceding years, too? A.—But our new business last year was about 150 per cent greater than 1901.

Q.—What was your ratio last year? A.—The ratio of increase?

Q.—No, your ratio of operating expenses to premium income last year, I think you said it decreased? A.—In 1897 the ratio is 186. Last year it was 115.8. They were a little lower.

Q.—But I mean operating expenses to premium income? A.—Oh no, that is the expense of getting new business that I have just given you. The figures I gave were 117 per cent.

Q.—But that is not your operating expenses to total premium income, surely? A.—Oh no, the total expenses. We haven't that worked out, I think.

Q.—You cannot tell by that that they are on the wane at all? A.—It is in consequence of the increase in new business being so very much.

Q.—How long is that going to last? A.—Well, we think we have reached a stage now where we can rely on a gradual increase, we have organized all the Dominion now and we can fairly rely on a gradual increase every year.

Q.—It is due altogether to expansion, going out of Ontario, expansion geographically? A.—It is much easier to get business for the company now than it was 10 years ago.

Q.—The large increase in expenses is due to the fact that you have gone away from Ontario to the West and East to get the business? A.—Yes.

Q.—Did you consider that you had exhausted the field in this Province before you went further afield? A.—We have the Province of Ontario pretty fully organized.

Q.—Would it not have been better for you to stay here quietly and take your normal increase until you got around the corner where you could afford to go? A.—We are more ambitious.

Q.—You certainly are, but is it wise to let your ambition rule you? A.—That was the opinion of my directors, that the proper policy to adopt was rapid expansion within reasonable limits.

Q.—Knowing that the expense is as great as it is; we are told that rapid expansion is not wise and is not proper? A.—I say within limits.

Q.—Well, the limits are about the same in the company I refer to as they are with you? A.—No, I don't think that there is any company during the past two years who have written a larger percentage of new business as compared with their old than we have.

Q.—Then you are more rapid than they are, as far as that goes and you still think you are within the bounds of what is right in the way of expense? A.—I do.

Q.—You have been personally yourself satisfied with the extension into the Western Provinces and Quebec? A.—Yes.

Q.—The results have justified you there? A.—Yes, our western business is fully as cheap, if not cheaper, than either Ontario or Quebec.

Q.—Take your Winnipeg office, that is on its feet now, is it, and paying its way? A.—Yes, one of the best paying agencies we have.

Q.—Who is your manager there? A.—Mr. William Harvey.

Q.—What does Mr. Harvey draw for his services? A.—$5,000 a year and travelling expenses.

Q.—And that is a sub-agency, a branch? A.—His status is different to an ordinary agent. He is a director of the company.

MR. LANGMUIR: He does not give his whole time to your company, does he? A.—Well, practically. He is President of a trust company. That takes up a portion of his time.

MR. GEARY: There seems to be some disparity there, a $5,000 salary in Winnipeg for the general agent, still an agent, a sub-officer? A.—I

explained that before. We have got to pay our field workers the same as other companies.

Q.—But he does not pay anything out of that? A.—Oh no, he could leave us and go and get more money than we are paying him.

Q.—You cannot explain that in any other way? A.—His district is probably as profitable as any other that we have.

Q.—And he gets twice as much salary as the General Manager? A.—Yes.

Q.—And he does not devote his whole time to it? A.—No.

Q.—And still he draws in that proportion? A.—Yes, he is a cheap man at that.

Q.—It occurs to me that the economy perhaps has been too much restricted to the head office? A.—No, we economize everywhere we can, in the field as well.

MR. KENT: What company was Mr. Harvey with before he went into your service? A.—He was manager of the London Ontario Loan and Investment Company.

MR. GEARY: When you get to Montreal, have you had a man established there long? A.—Well, we made a change there in the last year in the management of the Province.

Q.—You had a man there, too? A.—Yes.

Q.—What have been the results of the Quebec branch? A.—As regards volume of business, very satisfactory.

Q.—As regards payment of premiums? A.—The payments have not been as good as elsewhere.

Q.—Notes that is, not paid, or not taken policies? A.—No, our not taken policies are very small.

Q.—How is it that the payments have suffered in Quebec? A.—Well, in starting business there it is natural that the expenses would be greater, we have only been in Quebec in our third year now.

Q.—That does not affect the payments to you, does it? I understand that payments are poor, that is the percentage of monies due and not paid. A.—Oh, I understood you to say how the business paid the company there.

Q.—No, I meant whether the premiums are well met in Quebec. Have you written a persistent class of business for instance? A.—Yes, fairly well.

Q.—How does it compare with other districts? A.—It is about an average of a new district opened up.

Q.—How is your first premium paid—cash or note, as a rule? A.—The first premium, the agent is required to collect a portion in cash.

Q.—Every time? A.—Yes.

Q.—In no case does he deliver a policy without getting a part of the premium in cash? A.—If he does not collect it he has got to pay it himself.

Q.—And the balance is generally by note, it is not a total cash payment as a rule? A.—Not as a rule. Probably one-half of the cases are cash and the other part cash and part note.

Q.—You think every insurance company should be required to get a proportion of the premium in cash? A.—I think they should do it.

Q.—In regard to those notes what has been your experience in the meeting of them? A.—Probably 10 per cent. are not paid of the first year notes.

Q.—For what reason? A.—Well, the parties are not able to pay or something of that kind

Q.—Do you ascertain that after suit? A.—No, we don't sue unless they are worth it.

Q.—Do you find any fictitious persons or minors? A.—No, with minors we require cash payment.

Q.—Do people set up as a defence to a note that they were minors when they signed it? A.—I think we had one case.

Q.—There is something important then in regard to that? A.—No.

Q.—And your British Columbia business has been under satisfactory management? A.—Yes.

Q.—Satisfactory returns and no change in that management? A.—No change, whatever.

Q.—You spoke of paying the solicitor $300 as a sort of retainer. That does not include his loan fees, I suppose? A.—No. Those are paid by the borrowers. That $300 is all we pay.

MR. TILLEY: The solicitor work is done out west, I understand? A.—For the western loans. The discharges are prepared here.

MR. GEARY: But the loans are not revised and passed on by your Ontario solicitors? A.—No, just the Ontario loans.

Q.—How do you go about getting your medical directors? A.—The chief agent in charge of a district is allowed to make a recommendation and procure an application for ap-

44th day, June 21, 1906. Excelsior Life, (E. Marshall, Ex'd.)

pointment from the most reputable examiner in the locality. I am speaking of new districts. On receipt of that we make inquires as to his standing in the medical fraternity.

Q.—You follow that closely yourself? A.—Yes.

Q.—All their reports are revised by the medical referee here, are they? A.—Yes.

Q.—Are many of those thrown out? A.—Quite a number.

Q.—How do you account for that? A.—Well, a man is not a desirable risk on the plan applied for.

Q.—Why should you find a divergence of opinion between the two medical men on the facts that are stated there? A.—The cases where the views of the medical examiner and medical referee are divergent are very few. The medical examiner may rate a risk as fair.

Q.—Do they ever clash in this way, that the medical referee passes a risk which the local man has refused? A.—Oh, no.

Q.—Then the medical referee is called on to throw out risks passed by the local man quite often you say? A.—The local man merely makes a recommendation and gives his view of the value of a risk. He does not accept or decline.

Q.—But his recommendation is not followed? A.—His recommendation is only followed when it is wise to do so in the opinion of the medical referee.

Q.—Is there any carelessness whatever in the medical examination as carried on? A.—There is some. We never employ a medical examiner who is guilty of carelessness.

Q.—It has been said to me that there is a good deal of that. I wondered if you could verify the statement or suggest any improvement in such a condition? A.—We have dispensed with the services of two examiners last year for that very reason, that they had been careless.

Q.—And possibly you have not got them all, at least the companies, possibly there are careless men now? A.—We are very careful in the employment of our medical examiners.

Q.—It is a matter where you should be careful? A.—It is absolutely essential.

Q.—It is unfair to a proper policyholder that others should get in? A. —A medical examiner who is guilty of carelessness is just as culpable in my judgment as if he had committed fraud.

Q.—And your company uses special means to guard against that? A.—Certainly.

Q.—There is nothing statutory in regard to that appointment and I suppose you could not suggest anything? A.—It is essential that all companies in order to keep their expense and death rate down should guard themselves against fraud.

Q.—You could not suggest any way of making it stricter by having a Dominion Referee in regard to the fitness of medical men? A.—No, the Medical Council of Ontario, I think, should take action and debar a man from practising who is careless.

Q.—You have no means of bringing it to their notice? A.—We have no means so far.

Q.—It is an important branch and one that you have considered very carefully? A.—Very important. The cost of insurance would decrease materially if we had none but first-class risks on the books.

Q.—And there are poor risks slipping in? A.—Inferior. We are doing the best we can to stop it as far as our company is concerned. Our death rate has been very favorable on that account.

Q.—Could you suggest any legislation on that line? A.—The companies take all possible means, I think, under existing conditions for protecting themselves.

Q.—Does the local medical man get his fee in any case whether the risk is rejected or passed? A.—Just the same fee.

Q.—Is it ever paid by reduction of the premium on a policy? A.—No.

Q.—It is always a cash transaction, pure and simple? A.—A cash transaction, always.

Q.—Are you members of the Managers' Association? A.—Yes.

Q.—In regard to the year 1904 where you, as Mr. Tilley pointed out, would have shown $12,000 impairment, I notice you paid a dividend that year to the shareholders? A.—Yes, after a reasonable value had been placed on the assets, and a premium on the stock.

Q.—Was not that paying the dividend out of the stock when all is said and done? A.—No, the money had been used in developing and organizing the company in the other Provinces.

44th day, June 21, 1906.

Excelsior Life, (E. Marshall, Ex'd.)

Q.—You took it from them in bonuses and gave it back, or part of it, in a dividend that year? A.—No, I would not put it that way.

Q.—There would have been an impairment if you had not got it from them? A.—If we had not anticipated that we would not have written as much business, but we would still have our surplus.

Q.—You were bound to carry on your dividend paying for that year? A.—We increased our business nearly a million and a half in that year.

Q.—Did your Board authorize a dividend at the same time as they authorized the call? A.—No, it was three or four months afterwards, the following year.

Q.—The dividend was three or four months after the new stock had been issued with a premium? A.—The dividend was declared in February and the bonus was decided on in the previous November or December.

Q.—I suppose you would have had an impairment but for that bonus and but for the writing up, and yet you paid in that same year a dividend to shareholders? A.—No, we didn't pay a dividend out of capital. The dividend paid that year, 1905, was based on the returns of 1904.

Q.—In 1904 then you paid a dividend of $3,000? A.—Yes.

Q.—It is like a row of dominos, you set one going, and they have to fall to the end, so that some time you have to come to the end, it is no excuse to say it is on the previous year's business? A.—But your statement that the company paid a dividend when it had an impairment is not in accordance with the facts.

Q.—I am asking you that; you say that they paid it and had no impairment? A.—We had no impairment at the time the dividend was declared. We had a substantial surplus and last year, if viewed on the basis of the Government standard, we would have had a surplus also. It is only after assuming between $14,000 and $15,000 of a special reserve that made it necessary to write up our assets to their proper value, at least not even their full value.

Q.—I agree with you that you are very wise in the method you are treating your reserve and the method you are using to bring it up to its proper value, but is that any reason why you should pay a dividend? That is a thing that has got to be done, why not pass your shareholders' dividend? A.—You said a minute ago that if it were not for the writing up of the assets of the company we would have paid dividends out of capital. We wrote up our building about $8,000 or $9,000.

Q.—Some $10,000 I think? A.—That includes repairs. The surplus on our stock would have still left us on the Government standard with a surplus of about $10,000 or $12,000.

Q.—If you had not changed the '90, '91, and '92 business? A.—Yes, the special reserve. Our surplus last year was over $30,000.

Q.—But you cannot shift that surplus forward or back, you have fixed your liabilities with regard to that, and sworn to it in your Government statement, you cannot go back on that? A.—We have no desire to, no intention, that was one of the objects we had in placing the additional stock, so that we could assume this additional liability.

Q.—It is not obligatory that you should write that up, but in 1910 it is obligatory, and you have got to provide for it because you do not expect in 1910 to have that much money loose, do you? A.—No.

Q.—So after all if it is not obligatory now it is so close to it that you might as well not attempt to differentiate. However, we have got the facts and it does not seem to me that we can bring it out further. You will see that in the year 1903 you were carrying a surplus then of $7,000 and you paid a dividend, and in each of the last four years about the same amount that you carried to policyholders' account outside of capital? A.—$9,000.

Q.—And you were paying a dividend in each of those years. How long have you been writing semi-tontine business, Mr. Marshall? A.—About 13 years.

Q.—Has any of it matured? A.—Only on ten-year plans.

Q.—You had written some on the ten-year plan in the first three years of the business? A.—Yes.

Q.—And were the statements up to the estimates you had given, or within a reasonable percentage of it? A.—The results are rather close to our present estimates.

Q.—But not to those in force then. There are some of those 15 years if you have any, pretty nearly maturing? A.—In two years.

Q.—Are most of them 20 year? A.—Yes.

Q.—You have a certain sum set aside for those policies. I need not go over what you went over with Mr. Tilley.

44th day, June 21, 1906. Excelsior Life, (E. Marshall, Ex'd.)

A.—No, we have made a calculation as to the amount.

Q.—Are you retaining the amount you have calculated? A.—We are not retaining the amount or assuming it as a liability. We are using it to make more money.

Q.—So you have got nothing in cash to the credit of those same dividends? A.—No.

Q.—I intended to ask where it was placed, because I could not find it. Do you keep your with and without profits business separated in your books? A.—Not in our books, no. That is the policy register is not separate.

Q.—Your system of bookkeeping allows you to distinguish between the two classes? A.—Oh, Yes.

Q.—Can you tell us from that whether your without profits have paid their way? A.—We have not made a calculation, but I should say they have.

Q.—And more? A.—And more.

Q.—What is a non-participating policy, is it a protection policy? A.—It is either pure indemnity or endowment.

Q.—I did not expect to hear you use the word indemnity. Practically it is a protection policy only; it is supposed to be issued practically at cost? A.—The endowment element is removed.

Q.—You are supposed to issue that policy practically at cost or do you issue it so as to make money out of it? A.—No, we make an estimate of what is a reasonable charge to make, taking in the expenses. The loading is less than on the participating policies of course.

Q.—Would it not be fair that an insurance company issuing non-participating business should keep that business separate in its books, and should it make any profit, apply that profit in reduction of premium? A.—You cannot gauge the premium rate on any policy so as to be certain that it will leave a profit.

Q.—Could you not make it large enough to clearly cover expenses, and should there be profits out of that particular portion of your funds reduce the premiums in later days, would not that be a fair style of insurance? A.—I don't think it would be possible to make the rates lower than they are at present.

Q.—Then it just pays do you say? A.—Yes, there may be a profit one year, but a loss the next. It depends on the mortality, the rate of interest, the expenses.

Q.—Are they loaded sufficiently to carry themselves? A.—They are calculated to do so, that is only an average. It is an average taken on an average number of policies and an average number of years.

Q.—Do you take into account mortality gains? A.—No.

Q.—Do you take into account gains in interest? A.—No, we assume that we are going to earn a certain interest.

Q.—For the purpose of your net premium? A.—Yes.

Q.—Then the gains in interest and mortality will be profits on that policy if the loading is sufficient to carry it? A.—Yes.

Q.—Then would it not be fair to have such a policy as would enable those gains in mortality and interest and possible gains in lapses and surrenders, if they amount to anything, to be applied in reduction of premiums later on? A.—That contract may run over a period of twenty years, or a lifetime. The conditions which prevail now may be entirely different 20 or 30 years hence.

Q.—Precisely so. It is no argument that because a thing is done? A.—We are earning over 7 per cent. interest to-day. In 25 or 30 years we may be earning only 2 per cent. We are assumed to be earning 3½ during the entire period of the policy.

Q.—We are not disputing that. The Government has fixed 3½ per cent. which will enable you to put up reserve and pay your mortality claims. Now you say you do not take interest and mortality gains into account but that these do occur. If they occur isn't it fair that the non-participating policyholder should get that back in reduction of premiums, although you do not guarantee him anything? A.—Suppose there was a loss on the mortality in excess of that provided for.

Q.—If you are not earning 3½ per cent., the Government standard, then it is quite likely you are going to pieces? A.—We don't know where we will be 10 or 15 years hence.

Q.—You will be protected by a lowering of the standard if that happens? A.—I am speaking of the present contracts. Some of the policies issued by the older companies are calculated to earn a very much higher rate than 3½ per cent.

Q.—You do not anticipate any loss whatever on non-participating policies? A.—No.

Q.—3½ per cent. leaves you a large margin? A.—Certainly.

Q.—And your gains on mortality and surrenders ought to enable you to carry it? A.—There is very little difference in the non-participating rates of the company. They are calculated to pay all the expense, to carry that risk and fulfil its obligations, but there is very little margin left for variations.

Q.—You do not think the profits that are or may be gained on that are part of those to which the participating policyholder justly looks? A.—No, I don't think they are entitled to them.

Q.—Then who should get those? Should not the man get them back? A.—No, I think the shareholders should get them in our company. They would have to put up the loss if there was any.

Q.—Then your view is that the participating man should not get them, the non-participating man should not get what his money has earned but the shareholders should get it, outside of what his money has earned? A.—If there was a loss on that business the shareholders would have to meet it. In the case of our company I don't think one-half of one per cent. is non-participating business.

Q.—To my mind—I do not know that I can pledge my own opinion in this thing—but to a great many people it seems proper and just that since you offer to give non-participating insurance at cost and these men are not getting any benefit they are paying you for running the business and for the cost of it and what you give them in the death claim, that if there are profits they should go back to them? A.—The non-participating rates are loaded 7½ to 10 per cent. probably; out of that the company pays the expenses, the examination, the medical referee, issuing the policy, calculating the premiums, keeping the account of the business. That is not excessive.

Q.—Adequate loading is always going to pay that? A.—I am speaking of loading. We figure that a loading of 7½ or 10 per cent. will cover that and no more.

Q.—And you load how much? A.—I say the rate ranges on a non-participating policy probably from 7½ to 10 per cent.

Q.—And that pays its way? A.—It pays its way and it is calculated to pay its way and very little over.

Q.—But it does make gains in interest and mortality? A.—In the case of our company, for instance, under favorable circumstances, but in another company that has not such a favorable experience with regard to mortality or earning a larger interest, there may be a loss.

Q.—I don't think there may be a loss? A.—It is a possibility.

Q.—A very dim one. As a matter of fact there may not be gains and there may be gains. Do you still adhere to your saying that the shareholders and not the non-participating policyholders should get that? A.—On that business, that is my judgment.

Q.—Don't you know that a great many men, not of great means, are forced into companies that you do not approve of, through just the fact that you cannot give them that? A.—We issue term policies.

Q.—Take the workingman who has to have protection to a certain extent for his family, should it not be your object to give him that at cost? A.—He cannot do any better in an institution or society than he can in a regular company.

Q.—He can on a level premium? A.—Oh, but not in term assurance. I don't think it is possible to give a lower premium rate unless the surrender values were eliminated and so on.

Q.—These friendly societies are getting men just by their low rates? A.—They can get insurance just as cheap in a regular company of the same kind, term insurance, five or ten years.

Q.—They do not understand that. How about your non-participating business, is it a large share of the whole total? A.—I should judge it is not over one-half of one per cent.

Q.—You do not push that business? A.—No, the public prefer the participating.

Q.—Is the with profit business in your judgment, as an insurance man, the best thing for the policyholders? A.—Yes, all my policies are participating.

Q.—You think it gives them a proper return? A.—I think the results on the average are better in the par-

44th day, June 21, 1906. Excelsior Life, (E. Marshall, Ex'd.)

ticipating policy than the non-participating.

Q.—How can you check the results in the participating policy? Is there any way that a man receiving them can check them up? He cannot take his profit loading and put that out at compound interest and get it back and say, I have got that? A.—If you take the experience of different companies over the entire period of a policy I think you will find that a man's return is very much more than the excess premium he has paid.

Q.—Than the excess loading for profits with compound interest? A.—Yes.

Q.—But you do not differentiate that in your books? A.—No.

Q.—It is all just loading? A.—Yes.

Q.—Used up in the first place for expenses, every cent of it? A.—Yes.

Q.—And the legitimate gain is interest; mortality gain is not a proper profit accruing? A.—I think it is a proper profit.

Q.—But you say that is deferred, it has to come some time? A.—The mortality will increase with the company's age.

Q.—Really it is not a gain, the mortality is deferred? A.—In the case of a number of British companies the mortality exceeds the premium income.

Q.—I do not like to go back to my British company, but their mortality last year was 64½ per cent. That is all. That does not look as though it were deferred mortality; I don't agree with you, of course, I think that is a straight gain but you do not seem to agree with that, you think it is only suspended? A.—It is a gain, certainly, but I say a company cannot always rely on that.

Q.—Pretty nearly, even if you do not get any great amount of new business? A.—Well, for example, our mortality in our new business was only a third of the expected.

Q.—That is just fresh from the Medical Examiner? A.—On that same business 20 years hence the mortality may be 75 per cent. of the expected, or greater.

Q.—50 to 65 per cent. would be an average, I suppose, and that will continue apparently for all time to come. A.—Insurance contracts are guaranteed and you have to rely on certainties, not probabilities.

Q.—Do you send out to your policyholders a statement every year? A.—The company's statement?

Q.—Do you consider yourself under Section 91 of the Ontario Act and furnish to each member annually a statement of the company's assets and liabilities, do you consider that that calls upon you to send a statement to your policyholders? A.—We always do send one to each policyholder, a complete annual statement.

Q.—Before you got your Dominion License the Registrar here could look over your bookkeeping and re-arrange it to suit himself and order it to be kept to suit himself? A.—The Provincial Inspector?

Q.—The Registrar? A.—Yes, for a number of years we had two inspections.

Q.—Now that you have gone under the Dominion Act nobody has any power to change your system of book-keeping, I suppose? At least that is what alleged. A.—When we came under the supervision of the Dominion we made some changes in our methods of keeping accounts, in order to meet the views of the Superintendent of Insurance.

Q.—The Superintendent of Insurance in Ottawa? A.—Yes.

Q.—You have followed his suggestion as to the keeping of your books? A.—Yes.

MR. TILLEY: Mr. Harvey, I suppose, is the gentleman who attends to all the investments in the West, is he the gentleman Mr. Fasken mentioned? A.—Yes.

Q.—He scrutinizes all loans made there? A.—Yes.

Q.—And that is where you get your 7 per cent.? A.—Yes.

Q.—That is where the money comes from? And is Mr. Fasken's statement correct that you have not had any loss on your loans out there? A.—Yes, I cannot recall a single case where we have made a loss.

MR. TILLEY: Subject to all reservations, that is all we have to ask the Excelsior.

MR. KENT: Mr. Marshall, is it not a fact that the loading on non-participating policies is not sufficient and never has been, and is it not a fact that it is not sufficient in any company with which you are acquainted? A.—In my judgment the non-participating business carries itself and results probably in a small profit. We only pay half the commission. If you assume that the proportion of expense etc., is the same as the participating business, your deduction would not be correct. We only pay half the commission; there is not the trouble in keeping the profit accounts

44th day, June 21, 1906. Excelsior Life, (E. Marshall, Ex'd.)

that there is with the profit business, the bookkeeping is very much less. I don't think that it can be shown that there is a loss.

Q.—Have you ever made up a comparative statement of the cost, do you know how much it costs you, the non-participating business? A.—It costs to get the business, half.

Q.—You say your loading is 7½ to 10 per cent. What is that loading called upon to pay, so that the participating policyholder shall not pay any share of it? My contention has always been through this inquiry that the non-participating policyholder was carried partly at the expense of the participating policyholder.

MR. TILLEY: I suppose you would have to keep the accounts entirely separate to find them out, would you not? A.—Yes. But we only pay half the commissions.

Q.—You do not keep the accounts separate? A.—No.

Q.—And no company does that we have found yet? A.—No company does it. All the expense of getting the business is merged into one. It would require us to classify the expenses, and we know that we only pay half as much commission to get that business.

Q.—That is because you do not want it, I suppose? A.—Well, no, I could not say that. The expenses of collection and looking after that business in the books are very small as compared with the participating business.

MR. KENT: My idea has always been from the beginning of this inquiry that the proper insurance is a straight life without profits. The more I examine the question the more I am satisfied that it is right, because none of the companies appear to push that kind of business. One-half of one per cent. is non-participating. Of course the man wants some inducement to insure. That inducement is furnished him by saying, you will have a share in all the profits we make, look at the Canada Life what profits they have made, look at the Confederation Life. Is it not a question, in view of the fact that the expenses of all your companies are large, and in view of your business, that you cannot do business any cheaper? A.—Under existing conditions.

Q.—And is it not the height of absurdity to bring into existence new companies at the present time in Canada? A.—Speaking personally, I would not care to invest in the stock of such. I think the conditions are very much more difficult now than when we started in business 15 years ago.

Q.—You would not want to go around and try to get stock subscribed for in a new insurance company at the present time? A.—No, sir, I would not undertake the venture.

Q.—Would you think it would be well to have a close season for insurance companies for ten years to come? A.—Well, I don't think there will be many new companies started.

Q.—What have shareholders to look forward to for 10 or 12 years? A.—Our company paid profits to policyholders at the end of its first five years and the shareholders got profits in the eleventh year. I don't think it is possible for any company to give results quicker under similar conditions.

Q.—If a man has to wait ten or eleven years for a dividend, how is it possible to get stock subscribed under those conditions? A.—Well, the trouble is that stock in new companies is placed as a result of the favourable career of some of the older companies.

Q.—Do you tell the shareholder that he will have to wait ten years for a dividend; when canvassing for a stock subscription? A.—No, I have known stock placed and the Excelsior quoted as what a company can do, that we are paying 7 per cent. They don't explain that that is not on the actual amount paid in by the shareholders.

Q.—And they do not explain that the shareholder would pay his own dividend, we have seen that the shareholder was called upon to pay 10 per cent. of the bonus and the admission was made that it was very much easier to get it by saying that the man would get 2 per cent. of that back as a dividend. You did not assent to Mr. Geary's question as to the shareholder paying the dividend.

MR. TILLEY: The circular said the bonus was being charged partly because it was thought to be unfair that the new shareholder should come in and commence to take the dividend at once, when the old shareholder had been carrying it for some time without dividends. It worked out that they paid in 7½ and got 7½.

MR. KENT: In December the shareholder pays a bonus into the company. In February he gets a

dividend. It is admited that without the bonus there would have been impairment of capital. I do not see how you can get away from the fact that the man paid his own dividend? A.—Not on the basis of the Government standard; we would have had a surplus without that bonus.

MR. TILLEY: I think you needed that bonus in 1904, but what was said and I suppose no doubt would have been the case, the substantial business of the company, the large part of it, is in the last two months and if they had not been going to raise that bonus they would have probably not written so much in the last two months, saved a little reserve and probably not shown any impairment. There are the two arguments, of course; there was the argument that the old shareholders had gone some years without a dividend and the new shareholders should be fined one dividend; that is practically what it meant.

MR. KENT : The company found it easier to call up a larger bonus and pay the dividend.

MR. TILLEY: They go on the lines of least resistance, I dare say.

(Statement of Profit and Loss, 1905, filed as Exhibit 249.)

I propose now, your honors, to go into the affairs of the Crown Life Insurance Company.

(Adjourned at 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 p.m., June 21st, 1906.

CROWN LIFE INSURANCE COMPANY.

CHARLES HUGHES, sworn, examined by,

MR. TILLEY: Q.—What position do you occupy in the Crown Life? A.—Managing Director and Actuary.

Q.—What actuarial education have you had? A.—I am an Associate of the Actuarial Society of America, and I was four years actuary of the Connecticut Insurance Department, and previous to that time I was for some years in the actuarial department of the Equitable Life.

Q.—How long have you been Manager and Actuary of the Crown Life? A.—Since early in February of this year.

Q.—Prior to that had the Crown Life any actuary? A.—My brother was Secretary and Actuary.

Q.—Was he a man of actuarial experience, too? A.—Yes.

Q.—What actuarial knowledge had he? A.—He was Assistant Actuary of the Manufacturers' Life for several years, and prior to that he was in the Actuarial Department of the Sun Life.

Q.—Then did he continue as actuary until the time you became actuary? A.—Yes, he left some little time before I went there, a few weeks; he went to China I think in January.

Q.—Is he associated with the Crown Life? A.—No, with the China Mutual Life.

Q.—Not with any Canadian company? A.—No.

Q.—Prior to your getting the position of Manager, who was Manager of the Crown Life? A.—George H. Roberts.

Q.—How long had he been Manager? A.—Since the commencement in 1901.

Q.—What position if any did he occupy besides Manager, was he a Vice-President for part of the time? A.—The last few months he was not Manager, he was Vice-President.

Q.—Was that prior to your being Manager, or at the time you were Manager was he Vice-President? A.—When I first went there he was Vice-President, but he had already been Vice-President for some few months and had ceased to be Manager.

Q.—Was there any Manager between yourself and Mr. Roberts? A.—No.

Q.—Who was the person that was chiefly instrumental in organizing the Crown Life? A.—Mr. Roberts.

Q.—He sought the subscriptions for the original stock that was issued, I suppose? A.—Yes.

Q.—And organized the Board and procured the charter? A.—Yes.

Q.—The charter was granted by a private Act of the Dominion Parliament? A.—Yes.

Q.—Mr. Roberts then would be the man who arranged the terms of the charter? A.—Yes.

Q.—Was any other person that was on the Board during the early days of the company associated with him in doing that, or did he do it entirely himself? A.—I did not know anything about that.

44th day, June 21, 1906.

Q.—You see we have to take from the different officers who are called here a certain amount of information they get from hearsay? A.—My brother might have helped him and I presume one or two of the incorporators that are mentioned in the Act probably.

Q.—Could you tell me who the incorporators in the Act were that took the more prominent part as among themselves; I see the persons names are George Harley Roberts, Charles W. Taylor, William Barclay McMurrich, Norman Macrae and George Hughes Watson? A.—William Barclay McMurrich is the only one I know anything about, and he is still a director of the company.

Q.—You think possibly that Mr. McMurrich may have had something to do with assisting in getting the charter and so on? A.—Yes.

Q.—Mr. McMurrich's firm are the solicitors of the Crown Life? A.—McMurrich, Hodgins & McMurrich.

Q.—Yes? A.—Mr. Hodgins is the solicitor.

Q.—Mr. McMurrich's partner? A.—Yes.

Q.—And you think if any of these incorporators gave Mr. Roberts assistance it would be more likely to be Mr. McMurrich than any other? A.—Yes, I think so.

Q.—And possibly your brother who was also helping Mr. Roberts? A.—Yes.

Q.—The Act has not been amended since it was originally passed? A.—No.

Q.—And the statute is set out in this pamphlet you have handed us? A.—Yes.

Q.—It provides the capital stock shall be one million dollars, divided into shares of $100 each, and as soon as $250,000 of the capital stock has been subscribed, and ten per cent. of that amount paid into a chartered bank of Canada, the provisional directors shall call a general meeting of the shareholders at some place in Toronto; and then a Board shall be elected. Was that amount, $250,000 of the capital stock subscribed? A.—I think more than that was subscribed.

Q.—But that amount was subscribed? A.—Yes.

Q.—And ten per cent. of that was paid in? A.—That is a matter I am not sure of.

Q.—Who is sure of it? A.—I expect Mr. Marks would know.

Q.—Who is Mr. Marks with regard

to the Crown Life? A.—He is the Secretary.

Q.—How long has he been Secretary? A.—About six months.

Q.—Prior to that did he occupy any position? A.—He was accountant.

Q.—How long was he accountant? A.—From about a year after the company started.

Q.—Was he associated with the company in the early days? A.—Not actually in the beginning.

Q.—Is there any person in the company now occupying any position that has been with it from the time it was incorporated? A.—Not actually, with the exception of Colonel Tisdale, I do not think there is, some of the directors, but no person in the office.

Q.—Did Colonel Tisdale take any prominent part in it as far as you know at that time? A.—As far as I know he did not in the beginning.

Q.—So that in the absence of Mr. Roberts it is practically impossible to get any person who knows about the actual beginning of the company? A.—That is right.

Q.—What is Mr. Roberts doing at the present time? A.—I believe he is talking of organizing another company, that is merely a matter of hearsay.

Q.—Do not be afraid of giving us hearsay, there is no doubt about that, I think I could give that evidence myself, that he is at present organizing a new company? A.—Yes.

Q.—Or seeking to organize a new company? A.—Yes.

Q.—Has application been made for legislation for that company? A.—I do not know, I do not think so.

Q.—He is at present engaged in getting persons to interest themselves in it? A.—Yes.

Q.—Without holding you responsible for all the terms of this charter let us see what the Act provides; it provides that no person shall be a director unless he holds in his own name and for his own use at least 25 shares of the capital stock of the company; that precludes the company from having any policyholder as a director? A.—Yes.

Q.—So that there is no provision either by legislation or by by-law which permits the policyholder to be appointed by the policyholders as on the Board of Directors? A.—No, there is no provision that I know of.

Q.—Then it provides that the shares of the stock shall be paid in such instalments as may be called, and goes on to provide that until $65,000 of

44th day, June 21, 1906.

Crown Life. (Charles Hughes, Ex'd.)

the capital stock have been paid in cash into the funds of the company the business shall not be commenced; has that amount been paid in? A.—Yes, considerably more than that.

Q.—And that amount was paid in before the company commenced business? A.—I always understood it was about $80,000.

Q.—Then there is a provision for the increase of the capital stock from one million to two million dollars, but the stock shall not be increased until a resolution of the Board of Directors has been submitted to the shareholders representing two-thirds in value of the subscribed stock, and duly approved, the meeting having been called for the purpose of considering the by-law. Has any increase in the capital stock ever been made, or does it still stand at one million dollars? A.—It still stands at one million dollars.

Q.—Has any discussion taken place as to the advisability of increasing the capital stock? A.—No.

Q.—Has all the original million of capital stock been subscribed up to the present date? A.—No sir.

Q.—How much has been subscribed? A.—$609,000.

Q.—Are you still getting subscriptions, or endeavoring to get subscriptions for stock? A.—We are not making any active endeavor, but if anybody was willing to subscribe we should take their subscriptions.

Q.—Why are you not making an active endeavor, because you feel it is not an opportune time, or because you have enough capital? A.—Well, it is not a very opportune time, and they have not made any active endeavor to get any more capital for some time.

Q.—Why not? A.—I do not know exactly why they did not.

Q.—You are the Manager of the Company? A.—It would not be a good thing to do.

Q.—Because it would be hard to get subscriptions at the present time? A.—Yes, it would be fairly hard.

Q.—And the matter is standing in abeyance? A.—Yes.

Q.—How many calls have been made on the capital stock? A.—One call.

Q.—Amounting to how much? A.—25 per cent.

Q.—Was the stock issued at a premium? A.—A premium of 25 per cent.

Q.—So that the call of 25 per cent. would include the quarter of the one hundred dollar share, being $25, and a quarter of the twenty-five dollar premium, being $6.25? A.—Yes, $31.25.

Q.—Has that been paid in by each shareholder on his shares? A.—With the exception of some shareholders that subscribed under a special plan that was gotten out about a year ago called the Instalment Plan.

Q.—Tell us what the plan is, and tell us how many shareholders have subscribed on that basis? A.—The plan is they are paying ten per cent. a year of the 25 per cent. and interest, I think it is 6 per cent. interest; about 800 shares have been issued on that plan.

Q.—About 800 have been subscribed, within when? A.—Within the last two years.

Q.—On the agreement that instead of paying $25 in cash and $6.25 on account of the premium, they shall pay $10, one-third roughly, each year for three years? A.—Ten instalments.

Q.—That would be how much each instalment—about $3 on each share is to be paid each year for ten years? A.—Yes.

Q.—Have you the form of subscription here, or anything which shows the contract with respect to that? A.—No.

Q.—Probably we can get it and put it in if it is material; in addition they pay interest on their capital? A.—They pay interest, that is included, it was figured out and is included in the amount of the annual payment.

Q.—The interest and principal is rolled together and divided into ten payments? A.—Yes.

Q.—I suppose that was done of necessity, not from choice? A.—The immediate financial result is not very great, but it was thought it was a scheme that would get us some small stockholders rather widely scattered, and that would advertise the company.

Q.—Was it the choice of the company to be paid in that way, or was it the necessity that drove them to take it in that way—was it because you could not get shareholders who were able to pay the 25 per cent. and the $6.25 on account of the premium, and you had to go to persons who were not so well able to pay? A.—Well,that is a matter I could not answer about.

Q.—Probably Mr. Marks can tell you? A.—I think it was merely

brought in as a sort of side optional affair that might please some people.

Q.—Might be a taking plan with some people? A.—Yes; as a matter of fact I have always understood that Mr. Roberts' great idea was that the capital stock of a life insurance company should be held in very small lots by possibly very small people.

Q.—Have it well scattered? A.—Yes.

Q.—And in small lots? A.—Yes.

Q.—I think that is true of your company at the present time? A.—Yes.

Q.—There is no person that holds a large block of your stock? A.—No.

Q.—It is held in small lots by people, and that makes a large number of shareholders for your capital stock? A.—Yes.

Q.—And that was regarded by Mr. Roberts as being a wise thing to do? A.—I think so.

Q.—And I suppose the idea was to prevent any person having the control of the company, that is the only object that could be served? A.—Well, no, I do not know what his object was, but I think he had any way another object, and that was to have it so scattered that the Crown Life would be, from our shareholders being all over the country, very widely known.

Q.—That is have a lot of people interested in promoting the company? A.—Yes.

Q.—And try to get business for it? A.—Yes.

Q.—Has every shareholder paid what is due or is there anything outstanding by shareholders under their contracts to date? A.—Yes, there are some shareholders that have something outstanding still.

Q.—Have you sub-divided any shares for non-payment of calls? A.—No.

Q.—So that any shareholders that are in default are for the present allowed to remain in default, you trying I suppose to get payment as fast as you can? A.—Yes.

Q.—Are there any shareholders who have not paid anything on their stock? A.—Yes, I think there are a few.

Q.—There are some who have not paid anything? A.—Yes.

Q.—How many are there in that class? A.—About twenty.

Q.—Do they hold any considerable amount? A.—No, mostly small shares.

Q.—Are any of them directors of the company? A.—No, sir.

Q.—There is no director that holds stock that has not paid something on account of his shares? A.—No.

Q.—Have you taken promissory notes for stock? A.—In a few cases.

Q.—Can you say in what cases where they amount to anything? A.—There is one that amounts to about $1,500.

Q.—Has anything been paid in cash by that shareholder in addition to giving his note? A.—No, sir.

Q.—He has given a note for the full amount? A.—Yes.

Q.—Is he an officer or director? A.—No.

Q.—Is he connected with the company? A.—No.

Q.—Can you tell me why a subscription is taken from a person who pays nothing at all? A.—This particular man was quite anxious to make the subscription, but as I have heard the story he had some other deals going through, or he was going away over to the States for a few months, and wanted to give his note and settle it up when he came back. He was going away for a day or two and put in his subscription and he would settle up the note when he came back.

Q.—Is the shareholder any one of those that is in this list? A.—Yes, it is this one.

Q.—That is the case of T. C. Johnston, who has a note with you for $1,644.17? A.—Yes.

Q.—You say he is not interested in the company in any way except as being a subscriber for that stock? A.—That is all.

Q.—That subscription was one of the early subscriptions? A.—No, I think that was about 18 months ago.

Q.—Has any other shareholder who is interested in the company given his note—is this person not an officer (showing the list of shareholders)? A.—Yes, that is Dr. Machell, he is the Medical Director.

Q.—He has given a note for $981 and some cents? A.—Yes.

Q.—Has he paid any cash besides that? A.—Yes.

Q.—How has the company treated those notes in its annual return, has it shown them as bills receivable or not? A.—Shown them as cash.

Q.—Tell me what means the company has evolved to treat these notes as cash? A.—Discounted them.

Q.—Discounted the notes with some bank? A.—Yes.

Q.—With what bank? A.—The Union Bank and the Sovereign Bank.

44th day, June 21, 1906.

Q.—Were they discounted as soon as received, or did you wait till the end of the year to discount them? A.—Towards the end of the year.

Q.—Have you the book here that would show that transaction? A.—No.

Q.—Were they discounted on the 31st December each year? A.—I judge it would be towards the end of December, the last few days of the year.

Q.—So that you would discount these notes with some bank on the 31st or within a day or two of the 31st December, and then you would take the notes back again from the bank at the beginning of the year? A.—One time we did.

Q.—Has not that been done other years? A.—The first year and the second year.

Q.—1901 and 1902?

MR. MARKS: The last two years.

MR. TILLEY: 1904 and 1905? A.—Yes.

Q.—That covers the end of each year during which you have held these notes? A.—Yes.

Q.—So that on the 31st December in each year since you have had those notes you would go to the bank and put through a transaction of discounting the notes and at the beginning of the year you would take the notes back again? A.—Yes.

Q.—So that it was not really discounting the notes at all?

(The questions are answered by Mr. Marks until a change is indicated.)

A.—They were three months' notes, and we paid a discount.

Q.—The notes were for three months? A.—Yes, and the discount was paid by the maker of the note.

Q.—They were not taken back again on January 2nd or 3rd? A.—No, not till they matured, about three months.

Q.—When the notes were put into the bank were they left there till they matured? A.—Yes.

Q.—So that the bank actually discounted them? A.—Yes.

Q.—And gave the company the money, and the company treated the cash as being its asset? A.—Yes.

Q.—Then when a new note was taken the giver of the note would pay for the discounting again? A.—They were being reduced during the year, and at the end of the year they were discounted again.

Q.—Were they endorsed by the company? A.—No.

Q.—Not endorsed by the company at all? A.—No.

Crown Life. (Charles Hughes, Ex'd.)

Q.—So that the note was payable to whom? A.—To the company. We had only one case of a note, the others were drafts.

Q.—Payable to whom? A.—Payable to the company, those were endorsed.

Q.—They would be all endorsed by the company? A.—Yes.

Q.—So that the company became an endorser on all these notes? A.—Yes, sir.

Q.—And therefore liable on them? A.—Yes.

Q.—Was anything shown in the annual return to show that liability? A.—No.

Q.—So that that was done in that way so that the company could regard it as cash? A.—Yes.

Q.—And that was the way it was treated every year in the annual return? A.—Yes.

The answers are given by Mr. Hughes until a change is indicated.

Q.—You say the capital stock has not been increased; Section 11 of the Act provides: (Reads Section 11). Has the company declared any profits yet? A.—No.

Q.—So that that section has never been acted upon? A.—No.

Q.—Are you keeping any account with your policies individually so that you can tell what profits they will be entitled to? A.—No.

Q.—Are you keeping your participating and non-participating sections of your business in any way separate? A.—No.

Q.—Can you tell us from the system of bookkeeping you are adopting —will you be able to tell in the future whether your non-participating business is paying? A.—Only in a general way by picking out an individual policy and working it out; we are not keeping them separate now.

Q.—How can you tell by taking an individual policy? A.—We can trace out the policies we issued in each particular year, find out what commissions were paid on them; and allot them a proportion of the general expenses of the company; and follow that through.

Q.—That would have to be done as a special enquiry? A.—A special enquiry would have to be made.

Q.—You are not keeping your books in any way that will give that information at any time you desire it? A.—No.

Q.—Do you know whether it is the practice of any life insurance company to do that? A.—I think the Etna Life do it, and I am not sure

44th day, June 21, 1906. Crown Life. (Charles Hughes, Ex'd.)

but the Travellers are commencing to do it.

Q.—Should not every company do that? A.—It does not seem to me to be an absolute necessity; the non-participating business is so small, such a very small thing.

Q.—Tell me what percentage it is on your business to date? A.—It is probably less than one per cent.

Q.—Do you issue instructions to your agents as to the class of business you want them to try and write, whether non-participating or participating? A.—No.

Q.—How do you fix their commission for the different classes of business? A.—Pay them two-thirds on the non-participating that we do on the participating.

Q.—So that an agent going to insure a man knows that as the result of getting a non-participating policy he will only get two-thirds of the benefit he will get if he induces him to take a participating policy? A.—Exactly.

Q.—Do you know whether that is a usual division as between participating and non-participating with companies in general? A.—Yes, sir, I think it is.

Q.—We had a case this morning where it was one-half, but you think the usual is two-thirds? A.—Yes, I think so.

Q.—To that extent all companies encourage the participating business? A.—Yes.

Q.—And I suppose the alteration in the commissions with respect to that is done chiefly for that purpose? A.—Partly because non-participating premiums are lower, the premium is smaller than the premium on the participating policy—the loading is smaller.

Q.—But the loading is, and the premiums are supposed to be able to carry the whole policy? A.—Yes.

Q.—And leave a profit for the company? A.—Yes.

Q.—That should be the theory? A.—Yes.

Q.—As to whether it does you cannot say? A.—No.

Q.—When you say that I suppose you are referring now to your experience in other companies too—that is not an enquiry you have ever made between participating and non-participating? A.—No.

Q.—You have never heard of it being made? A.—No.

Q.—Except in the Etna and possibly in the Travellers? A.—Yes.

Q.—I suppose the agent does as a fact endeavor to get a participating business always as the result of that? A.—Yes.

Q.—Do you pay all your agents by commission? A.—Yes, we do, but we make advances to some of them.

Q.—You make advances that are repayable if the commission is not earned? A.—No, they are not.

Q.—Why not? A.—Because I do not believe you could get an agent to-day if you wanted to make a contract like that.

Q.—It is a case of supply and demand? A.—Yes.

Q.—You have to fall in with the demand? A.—Yes.

Q.—And the agents now are demanding a certain amount guaranteed? A.—The good agents are.

Q.—They require to be paid on a commission basis with a certain amount advanced each month? A.—Yes.

Q.—Not returnable even if they do not earn the commissions? A.—That is right.

Q.—Is that a stipulation of your contract it shall not be returned, or is that merely the way it works out? A.—That is the way it works out in practice.

Q.—What is your stipulation in your contract with them? A.—We merely give a letter we will make him an advance of so much a week or two weeks or months, to be charged against his commissions, and the advance in every case we can cancel it without notice.

Q.—You agree to advance him against his commissions, and of course you would understand that to mean a loan by you to the agent? A.—Yes.

Q.—And if the agent does not earn it he would have to return it as a matter of law, that would be your understanding? A.—I do not think he would.

Q.—Why? A.—In the first place he has written some business, and the first year's commission has been credited on that, and his contract probably provides for renewal commissions, and he can tell you that some day the renewal commissions on that would wipe out his advance.

Q.—That is to say he can tell you, "I have got so much in futures now in the way of commissions that they will ultimately wipe out the amount of the claim? A.—Yes.

Q.—Has that point ever been raised with you by an agent? A.—No, I do not think so.

44th day, June 21, 1906.

Crown Life. (Charles Hughes, Ex'd.)

Q.—When you make these payments to the agents you charge them up to profit and loss, or do you carry them forward as an asset? A.—We carry them forward as an asset.

Q.—If you carry them forward as an asset you must regard them as something the company will become entitled to by way of commissions earned by the agent or else the money being returned? A.—In our annual statement we do not carry the whole amount forward as an asset.

Q.—What do you do in your annual statement? A.—The amount we carried forward last year was about $7,000 less than the actual amount.

Q.—That is 1905? A.—Yes.

Q.—We will see what amount you carried forward? A.—Yes, $9,986.52.

Q.—What was the total amount of that item on your books? A.—There was $6,503 writen off.

Q.—Did you show that written off in the return, or did you just deduct that $6,500? A.—It goes through in the disbursements there, agents, advances written off, $6,503.

Q.—So that you show that item as written off, agents' advances, $6,503.-23? A.—Yes.

Q.—Tell me why you wrote it off? A.—Some of those advances will be liquidated, and some will not.

Q.—And you thought taking the $6,000 from about $16,000 that that was a fair return showing what the item might reasonably be worth to the company? A.—Yes.

Q.—That is incurred in three or four years' active business? A.—Yes.

Q.—And there is a loss in respect of that item already according to your own estimation of over $6,000? A.—Yes.

Q.—Is that the first item you have written off? A.—It has been written off each year.

Q.—Tell me how much you have written off of agents' advances since the beginning of the company? A.—About $5,000 a year for the last two or three years.

Q.—Is it not an odd condition that makes you write off that amount every year, or is that a normal condition of insurance business to-day? A.—I should think that was the normal condition, I think it is; if a company is wealthy enough to afford it it would from a conservative point of view wipe off the whole thing every year, but a young company cannot afford to do it.

Q.—A young company must carry forward some item with respect to that, and cannot afford to treat it as an older company would? A.—Exactly.

Q.—That would seem to be no reason why you should not stipulate for the earning of that, providing the agents could pay it back to you; are they of a class that can pay it back? A.—Not as a general rule.

Q.—Do you have any bonds covering these agents? A.—No, we have not an agent bonded.

Q.—Is the bonding of an agent not a usual practice with companies? A.—Some companies do it, and some do not.

Q.—What is your idea as to the advisability or propriety of it? A.—We have not lost anything so far.

Q.—Why have not you lost it? A.—You mean bonding as regards his advances?

Q.—Yes, and also as regards money that comes into his hands? A.—Frequently the bond would not be any good to you.

Q.—Why? A.—What would you recover on it? You have nothing to recover from as a rule.

Q.—From whom? A.—From the agent if he does not earn his advances.

Q.—But if you have a guarantee bond by a guarantee company would not that protect? A.—I do not think you could get a guarantee company to issue such a bond.

Q.—They would only issue a bond for the money actually paid into his hands from the policyholders? A.—Yes.

Q.—You have not yet bonded any of your agents for that? A.—No.

Q.—Do you propose doing it or do you think it is unnecessary? A.—I think it is unnecessary.

Q.—And you say you have not yet lost any money? A.—No, we may possibly lose on one man an amount of about $80, but we have got his note and have it endorsed by two or three relatives, and I think we will get that $80 back.

Q.—Section 12 of the Act provides for the surrender value of the policy, and for its non-forfeiture after three or more annual premiums have been paid; I suppose that is a clause you have not had to consider much yet? A.—No, we have given a few surrender values but not very many.

Q.—I notice there he is to be paid, "Such surrender value as the directors of the company may fix," but the

44th day, June 21, 1906. Crown Life. (Charles Hughes, Ex'd.)

Act goes on to provide that the sum shall be ascertained upon principles to be adopted by by-law applicable generally to all such cases as may occur, provided he demands such paid-up and commuted policy or such cash payments while the original policy is in force, or within 12 months after his failure to pay a premium thereon;" there again is met a clause that the insured must make an application to the company to get his surrender value, or whatever right may accrue to him on a failure to pay his premium? A.—That is modified by our policy which provided that the insured can get the cash surrender value at any time; it does not matter if it is fifty years after it lapsed; but the paid-up policy he has to apply for within 12 months, and to protect ourselves he has got to produce a satisfactory health certificate.

Q.—That is not what this says? A.—But the policy governs.

Q.—The policy goes farther than the Act compels you to go? A.—The surrender values are written in the policy and he can get them at any time after forfeiture.

Q.—He can get the surrender value at any time? A.—Yes.

Q.—It says in the policy: "The cash value being available any time after the termination of the policy," but to obtain the surrender value in paid-up life insurance he must apply within a year? A.—Yes.

Q.—So that your policy is more liberal to the assured than your Act of Incorporation requires you to be? A. —Yes.

Q.—That is not a clause I suppose that would meet with your approval, a clause calling upon the insured to make some sort of application within a certain time, otherwise he is cut out from all benefit on his lapsed policy? A.—There is something to be said for it.

Q.—Tell me what? A.—You lapse a policy to-day, and six or seven years afterwards something you had forgotten all about you may have to pay out money.

Q.—That is to say take divisions of profits that occur afterwards, and you are probably treating that as an asset of the company? A.—Yes.

Q.—And later on you may be called on to pay out the money? A.—Yes.

Q.—That is one way of looking at it; what is to prevent the company seeking this man and paying him the money or his representative? A.—In practice we do that, we do seek the man, we do not seek him to get a cash surrender value, but we write to him, and write to him again and again and point out to him he can get a loan to cover the next premium, and what does he want to let it lapse for?

Q.—You try to keep the insurance continued? A.—Yes.

Q.—Do you do that by means of sending circulars to the assured? A. —No, we write them letters; we have no printed form for it.

Q.—Do you tell him he is entitled to the cash surrender value? A.—No, but we tell him he can get a loan value.

Q.—You tell him what is best in order to get him to continue? A.—Yes.

Q.—You treat it from the company's standpoint in that regard? A.—Yes, sir; of course we have not many that can qualify under that.

Q.—Why? A.—We are only four years in existence.

Q.—Before you send out these letters to the policyholders who have made default do you enquire as to their present health and condition? A.—No, sir.

Q.—Have you any means of ascertaining what the health and condition of an applicant for insurance is after you have issued your policy at any time during its existence? A.—No, unless we happen to know some person that knows him.

Q.—You have no official system of inspection? A.—No.

Q.—Your policies are non-forfeitable after three years? A.—No, no non-forfeiture agreement in our policies.

Q.—That is to say there is no clause— A.—You mean indisputable?

Q.—Yes? A.—They are indisputable from date of issue.

Q.—So that there is no period under your policies within which it might be of some use to you to make enquiry about the man and find out whether his application correctly sets out the facts? A.—No, sir.

Q.—And in practice you do not do it? A.—No.

Q.—Then clause 13 provides you may agree to give to holders of participating policies the right to attend and vote in person at all general meetings of the company, whether such persons are shareholders of the company or not, and who are by the terms of their policies entitled to participate in profits, etc. (Reads the whole of clause 13). Have you

44th day, June 21, 1906. Crown Life. (Charles Hughes, Ex'd.)

ever given policyholders a right to vote under that? A.—No.

Q.—Has that been under contemplation by the company? A.—No, sir.

Q.—Do you approve of giving them the right to vote? A.—Personally?

Q.—Yes? A.—Not to-day, sir.

Q.—You mean to say with your company to-day? A.—With my company to-day, no, I do not.

Q.—Why not? A.—When you are engineering a thing through the younger stages, and you have certain troubles to get over, the fewer people that can criticize those troubles the better.

Q.—You say in the early stages when you have so many difficulties to meet you do not want too many masters, is that the idea? A.—Yes.

Q.—You would meet with too many objections that possibly when the company becomes older would cease to exist? A.—I think it is very probable that an old company could give its policyholders a right to vote and never have to bother about it, because I do not think they would ever vote.

Q.—A younger company they might have? A.—Yes.

Q.—With a younger company you would object to them voting if you were Manager? A.—Yes.

Q.—If you were not a Manager, and not concerned with going along lines of least resistance— A.—I would still object.

Q.—Even if you were only a policyholder you would not think you were still entitled to vote? A.—No.

Q.—You are a partner in the concern if you are a participating policyholder? A.—Yes, I know, but I have to trust to the people who are running the institution. You have to put confidence in somebody in every business; the trouble with policyholders voting is this that at any time it might be possible for one person to corral a lot of votes and if he did not upset the management he might upset the meeting and make a lot of trouble, and if you are going to have a new management in a company every year possibly the state of the company would be very bad at the end of a few years, and there would always be that possibility.

Q.—Are you referring to a possibility of some person by reason of his right as a policyholder getting into an annual meeting and there causing trouble, stirring up policyholders—

MR. KENT: Changing the directors? A.—Changing the directors, I mean more in the line—I might think if I was a policyholder in the Canada Life or the Mutual Life to-day, I am a little man in a little company, why don't I go around to these people and get proxies and go and vote myself on their proxies as General Manager?

Q.—You do not claim that is a possibility? A.—They claim in the States it is a probability to-day.

Q.—You would not approve of policyholders voting by proxy? A.—No.

Q.—That would be right in accord with what you have said that the system of voting by policyholders you would not think was proper? A.—I would not like the proxy vote at all. If you can get the actual individual desire of every policyholder I think it would be all right; but if you would leave it for one person to guide the herd I would be very sorry for it.

Q.—You feel that would be a more serious matter where the company is young and in its early stages than you would when it is more independent? A.—For this reason, you would find it rather more difficult to get the old policyholders to give individual proxies in an old company.

Q.—Or even distrust the management? A.—Yes.

Q.—I suppose with a new company your idea is probably they are not so well known to the policyholders or the public? A.—Exactly.

Q.—And criticism would take a stronger hold in the case of a younger company? A.—Yes.

Q.—Even although no more justified? A.—Yes.

Q.—This section at any rate actually precludes by the Act of Incorporation the granting to the policyholders the right to vote in respect of the increase of the capital stock? A.—Yes, I see that.

Q.—Is that a provision in Acts of Incorporation that is familiar to you? A.—No, I never saw it before, I never happened to read an Act before that provided that policyholders should vote except the one with the Equitable Life.

Q.—This clause in it is—I do not know that it is proper to say it is uncommon, because we have met it elsewhere, but it is aimed at keeping to the shareholders the exclusive right to say whether the capital stock shall be increased? A.—Yes.

Q.—Can you suggest the object of that, have you ever had any discussion on that section at all? A.—No.

Q.—Section 14 provides you may maintain separate accounts of the

44th day, June 21, 1906. Crown Life. (Charles Hughes, Ex'd.)

business transacted in "Industrial," "General," "Abstainers" and the "Women's" sections, keeping receipts and expenditures distinct, each section sharing its own profits, and each section paying its own proper portion of expenses; and then you may have a section for non-participating policies. Have you an industrial branch in your business? A.—No.

Q.—You do not issue industrial policies? A.—No.

Q.—Have you an Abstainer's Section? A.—No.

Q.—Do you insure women? A.—Yes.

Q.—Have you kept that section of the business separate? A.—No.

Q.—So that you have never availed yourself of the provision in this Act as to keeping different accounts for the different branches of the business? A.—No.

Q.—You just have one general business? A.—Yes.

Q.—And in that you insure both men and women, and you include both the participating and non-participating policies? A.—Yes.

Q.—It would not be very difficult, would it, if you were carrying on different classes of business to keep them all separate in separate branches, making each one pay its own death losses and so on? A.—You would multiply your books for one thing.

Q.—Take a company like yours, it would not seriously increase the work, would it? A.—We have one general cash book now, and we would have to have two; that would be an added expense and additional work. We would have to divide each agent up again.

Q.—To keep you participating and non-participating business entirely separate so that you would know what each is paying the company, what would that involve in a company of the age of yours, would it involve more than an extra book-keeper? A.—That would be about all, and an additional set of books; you would double up your books.

Q.—It would not be a very serious matter? A.—Not a very serious matter.

Q.—If you issue policies giving the holder of the policies rights in your profits earned in their section don't you think it is fair and proper that that much expense should be incurred for the purpose of keeping your moneys to that extent as trust moneys for them? A.—I do not think they would be any better off; the participating business is so small, and you could tell very nearly what it has cost you to run it.

Q.—You think it would be useless? A.—I think it would be a waste of time and money to do it.

Q.—You could probably say that with respect to your company which is small, but as a company gets larger and writing a greater volume of each class of business— A.—If the company had anything like two-thirds of one and one-third of the other it would be a wise thing to do.

Q.—You do not know what you will do in the future with regard to that? A.—It would depend on how the non-participating business grows.

Q.—Have you found that it is growing since the Commission was appointed, the non-participating as compared with the participating? A.—No.

Q.—Would it not be wise in starting a company like yours to start and have your books ready for both classes so that you would know exactly where you stood? A.—It would be a much more practical matter to let it go on until we see the necessity for it, and then separate it out.

Q.—Until you are driven to do it? A.—Yes.

Q.—And leave the participating policyholder to take what is coming to him in the way of profits without having any exact system of keeping the books to show that this man whom you have agreed to treat in a certain way is being dealt with as you promised? A.—As a practical matter we know he will be.

Q.—You have got so accustomed to treating the participating policyholders about as you please you do not regard it as a serious matter keeping your books and accounts proper, is not there a danger of that with insurance companies? A.—I cannot see it when the non-participating business is so small.

Q.—Do you propose as actuary and manager of this insurance company to keep an individual account with each policy? A.—We have not up to date and I do not think we will.

Q.—What do you propose to do as manager and actuary of your company? A.—I do not propose to keep a separate statement for each individual policyholder.

Q.—Why, is not he entitled to at least that much consideration? A.—He gets the same thing, he is in a class and each member of that class will be treated the same.

Q.—How does he know—supposing I am a policyholder in your company, I go to you at a certain time and I want to consider the advisability of surrendering my policy, I suppose you can tell me what I would get by way of surrender? A.—Yes.

Q.—That is guaranteed in the policy? A.—Yes.

Q.—I say what is my policy worth to-day with the face value of the policy and the profits I am entitled to—can you tell me that? A.—I should be inclined to give the man an unofficial answer.

Q.—Why am I not entitled to an official answer? A.—Because the deferred dividend system implies no distribution till the end of the period.

Q.—Take the quinquennial distribution of profits, or take a deferred dividend policy, why can I not be told what state my policy is in up to that time regardless of the future, or how it may be added? A.—Because it is a nice legal question whether the company would not have to charge those dividends as an actual liability.

Q.—That is having set apart a certain amount of profits to those policyholders you think the company would have to include that as a liability they owe the policyholders? A.—I do not think they would, but I am afraid they would.

Q.—Can you tell me why it is any more liability because you show it as such in your books than if you do not show it at all? A.—Supposing a company has $50,000 for deferred dividend policyholders, and you make them show that as a liability; the next year something may happen, and they might want say $5,000 of that $50,000, the deferred dividend system would allow them to take that $5,000, but if you make them set that apart in that way then the policyholders may come back at the company for that $5,000.

Q.—Is that the only objection, because it can be easily remedied? A.—That is one of the principal objections.

Q.—Have you any others? A.—To-day it leaves the company with an asset; supposing the company has that $50,000 surplus on deferred dividend policies, and that is all it has got—

Q.—It can state to-day "Our surplus is $50,000"? A.—And it can do what it likes with it.

Q.—And in truth and reality if the company was telling its policyholders they were entitled to that it could not treat it as an asset, that is the fact? A.—It depends on the point of view—if you are trying to find out the status of the company they have $50,000 over and above their actual liability.

Q.—But that $50,000 has already by their policies been promised to the policy-holders? A.—Now you are talking of the position of the directors to the policyholders, not the position of the company; the directors are liable in one way or another for that $50,000, it is a liability of the directors to the policyholders.

Q.—Apparently you are not the only person interested in insurance companies that objects to showing what the company owes with respect to its deferred dividend policies? A.—No, I guess I am common.

Q.—And the objections to it from your standpoint are the ones you have urged? A.—Yes.

Q.—Attached to the Act of Incorporation are the by-laws; are those the by-laws as they stand to-day? A.—No, they have been modified from time to time, and they are covered in the minutes.

Q.—There are no substantial changes? A.—They are substantially the same.

Q.—Your directors are paid $10 a meeting? A.—That is reduced to $5; there is one meeting of directors each month and one committee meeting—

Q.—And it is $5 for each meeting? A.—Yes.

Acts of Incorporation and By-laws of the Crown Life Insurance Company filed as Exhibit 250.

Q.—Have you a statement showing your directors? A.—I think I filed one, I have not got one with me. This is the list of directors as they were at the end of the year 1905, in this manuscript statement, and it has been changed.

Q.—Give it as it is now? A.—Hon. David Tisdale, President; John Charlton, Vice-President; Randolph Macdonald, H. T. Machell, Samuel Barker, A. R. Boswell, W. B. McMurrich, R. L. Borden, F. Hodgins, C. S. Wilcox, R. Forget, R. T. McCormack, and C. Hughes. That is all I recall.

Q.—Were all these persons directors when the company was formed? A.—No, sir.

44th day, June 21, 1906.

Crown Life. (Charles Hughes, Ex'd.)

Q.—Who have become directors since? O.—Mr. McCormack.

Q.—In place of whom?

MR. MARKS: Nobody specially, there have been two deaths, there are several new ones since the incorporation. There have been several changes on the Board.

Q.—Mr. Roberts was on the Board?

WITNESS: Yes.

Q.—Dr. Machell has always been on the Board? A.—Yes.

Q.—And I believe Sir Charles Tupper was the original President of the company? A.—Yes.

Q.—And one of the Board of Directors, and President down to what date? A.—To the end of 1903.

Q.—Did any of these directors take out insurance with the company? A. —Yes, sir.

Q.—How many of them? A.—Quite a few of them.

Q.—For large amounts? A.—Several of them $5,000.

Q.—Was $5,000 the largest? A.—Two $10,000, Randolph Macdonald and Mr. Wilcox.

Q.—Were those directors on the incorporation of the company given any special rates? A.—No, not at the incorporation of the company.

Q.—When were they given any if at all? A.—Some time since then, they got a commission when they took out insurance.

Q.—What commission did they get?

MR. MARKS: 15 per cent. for five years, any plan up to ten years, 20 year endowment they get 15 per cent. for seven years.

Q.—15 per cent. on their premiums for seven years? A.—Yes.

Q.—Is that the most any one of them got? A.—Yes.

Q.—And no renewal commissions after that? A.—No.

Q.—Was that a rate that was determined upon for directors by the Board, or who settled that rate?

WITNESS: I think that was a rate suggested by the Managing Directors to encourage them to take out insurance.

Q.—And all insurance taken out by these directors has been taken out on that basis? A.—Yes.

Q.—Is that same rate given to other officials of the company? A.—No, I think the late Secretary drew a regular agent's commission; at one time they would not do it, but during last year they decided that anybody in the office could draw the regular agent's commission on any insurance he took out or could place.

Q.—What do you regard as the regular agent's commission? A.—65 per cent. of the first premium graded down; it will run 65 per cent. on the ordinary life, sometimes 60 on the life twenty, never more than 65 on the life twenty; down to 55 on the twenty year endowment. It will run down much lower on the ten, and the endowment ten it will run down to 30 per cent.

Q.—Are there any renewal commissions with that arrangement? A.—Yes.

Q.—What? A.—About 7½ per cent.

Q.—More than 7½ per cent? A.—It might for the first year or two to a few agents.

Q.—Does that apply to the head office staff? A.—No, they get five per cent., any business they write they get brokerage; on their business they get the renewal.

Q.—What brokerage do they get?

MR. MARKS: 65 per cent. graded.

Q.—They are cut off the renewals? A.—Yes.

Q.—Does the company ever write any insurance that it gets the whole premium without allowing any commissions? A.—Yes sir, occasionally, when I made that statement about the office I should have made one exception; our Superintendent of Agencies writes considerable business and he does not get anything on it because that is what he is for, he has not so much to write personally business himself, but to go in and close business with our agents, and occasionally he picks up a risk himself, and he does not get anything, and the company gets the whole thing.

Q.—I suppose your company will allow any person that brings in a policy the commission? A.—I suppose we would, but we do not have experience of people bringing us in policies, but if a man walked in with a policy and asked us to take it, held us up for commission, we would give it to him.

Q.—Not holding you up? A.—If he would give it to us without the asking for it we would take it, but as a usual thing—

Q.—Do you have any persons coming in and asking for a rebate? A. —We do not have anybody coming in and offering to insure their lives.

Q.—You would be suspicious of such a risk? A.—I knew he would want a—

Q.—Probably be in bad health? A. —I knew he would want a commis-

44th day, June 21, 1906. Crown Life. (Charles Hughes, Ex'd.)

sion; I would think he was running around to the various offices to find who was giving the biggest rebates.

Q.—Do you have any? A.—No.

Q.—Do you make any allowances to agents where they have to give rebates? A.—No actual allowance.

Q.—Some consideration? A.—No, we do not hand over a man anything, but if a man is on an advance contract with us he has to turn us in the full premium in every case, and if he makes a very strong statement that he cannot close with a man without giving him a rebate we of course have to consent to that rebate.

Q.—If a man tells you that really in reference to a special case he must give a rebate then you say, "Very well, go ahead and give the rebate?" A.—Yes.

Q.—Then you allow the rebate off? A.—Yes, and we only credit him up in his account with the commission less the rebate.

Q.—You have no directions issued to your agents that they must not under any circumstances rebate? A.—No.

Q.—You rather encouraged them to get business and meet competition? A.—No; if we had an agent that was all the time rebating we would get rid of him simply because the business would not be of any use to us.

Q.—You get the same amount out of it whether he rebates or not? A.—We would not if he was on an advance contract.

Q.—What is that? A.—The contract I have explained to you.

Q.—That is where you give him an advance? A.—Yes, and besides that it is a very well founded idea that rebate business does not continue on the books, it is not as persistent.

Q.—It is not looked upon as being as good business; do you ever allow a man his whole premium to get him started? A.—Never, I don't know of any such a case in the history of the Company.

Q.—We had a case this morning where a man got the full first year's premium on his policy? A.—I don't know who he got it from.

Q.—You disapprove of it, but you know of no way to stop it, is that what you mean to say? A.—Yes, I disapprove of it. The thing arose in this way: If you buy something from a friend who is in a certain business he would probably let you have it a little cheaper, and when you come to work that in insurance business the agents write their friends, and all their friends try to get a rebate. I have friends in the fire insurance business, and I have never got a rebate on my fire premium yet.

Q.—Do you think the insurance companies acting in concert could not stamp that out? A.—I don't think they would act in concert.

Q.—Each one would be encouraging all the others to act in concert, occasionally slipping out himself to get a good policy? A.—Yes.

Q.—Have you been economizing in your Head Office expenses, as the company this morning claimed to have been doing? A.—We have reduced the force by one this year.

Q.—What one? A.—Andrew Deacon.

Q.—Is that all the economy you have been practicing? A.—I presume, yes, sir.

Q.—I notice by the Minutes of the Directors' meeting, May 28th, 1901, "It was moved by Mr. Roberts, seconded by Mr. Charlton, and resolved: That the arrangement to be made with Sir Charles Tupper, President, be as follows:

1. Salary of $2,000 per annum, commencing 1st June, 1901.

2. One per cent. on all calls of subscribed stock in excess of $100,000 subscribed for by the 31st December, 1901; also 1 per cent. of the premiums on such calls.

3. One per cent. of the gross first year premiums on new policies issued each year as long as he remains President."

Q.—That seems to be a rather liberal allowance for a President of a new company, does it not? A.—I should think so, but I did not make that arrangement.

Q.—I started out by telling you we were not going to hold you responsible for everything; was that contract terminated before you came into the Company? A.—Yes, a considerable while before, some two or three years.

Q.—Tell me when it was terminated?

MR. MARKS: I think it was the beginning of 1904 when Sir Charles Tupper resigned.

Q.—I think it was up to the end of 1904, I wish you would verify that?

WITNESS: That continued during the whole of 1904.

Q.—Can you tell me the amounts that were paid under that resolution? A.—For 1904, $3,285.

Q.—What was paid in 1903? A.—I don't know; it is in that statement we

44th day, June 21, 1906.

submitted, all our disbursements for the year 1903. It would have been probably about $2,600.

Q.—In 1902 probably a little over? A.—Probably, a little over the $2,000.

Q.—1901? A.—Very small.

Q.—1901, there would be the payment on the capital stock? A.—That is true, but that was only on each subscription over $100,000.

Q.—There were $220,000 subscribed, so that would be $687.50, as I figure it? A.—Well.

Q.—Tell me now what meetings the President attended during the time he was President, or what he did for the Company?

—The answers are given by Mr. Marks until a change is indicated.

A.—He often attended meetings, General meetings and Board meetings, and Committee meetings sometimes.

Q.—I do not see his name down for Committee meetings and Board meetings? A.—He was often at Directors meetings.

Q.—How many times a year? A.—Perhaps three times a year, may have been more than that in the early years.

Q.—Did he do anything more than that, besides attend those three or four meetings a year? A.—I suppose he was working in the interests of the Company with Mr. Roberts; he was supposed to be accompanying Mr. Roberts organizing.

Q.—That seems to have been a large expense to put on a young company starting; and then I see Mr. Roberts' salary was placed at $5,000 a year right from the beginning of the Company?

—The questions are answered by the witness until a change is indicated.

A.—Yes.

Q.—What is your salary? A.—The same.

Q.—Does that strike you as being a large salary to pay at the commencement of a small insurance business? A.—I think it was a large salary.

Q.—What salary was the Medical Director paid? A.—$1,000.

Q.—Those would be rather large amounts to put on a young company just beginning? A.—I should not call $1,000 for a Medical Director large.

Q.—I think I should exclude the Medical Director's fees, but other than that, the President's and Manager's remuneration would seem to be very large? A.—I should be inclined to the idea that it was.

Q.—Was the President discontinued by reason of the idea that it was

Crown Life. (Charles Hughes, Ex'd.)

too high? A.—Yes, they wanted to reduce expenses.

Q.—So they decided to reduce the expenses of the President, and then the President resigned? A.—I expect that was the way of it.

Q.—That is what you believe was the way of it? A.—I should think it was probably.

Q.—Can you give any reason why the President should get a percentage on the premium income of a company in any company, why he should get a percentage of the gross premium income? A.—The person securing him as President might not want to pay him possibly more than he thought the company could afford and he might think that was one way to adjust it.

Q.—That would hardly be so where the remuneration was starting with $2,000 at the commencement? A.—It is a system I do not approve of.

Q.—You cannot suggest any reason why a President should be paid a percentage on the gross premiums? A.—No.

Q.—You have had transactions regarding purchases of securities, have you any Directors in your company that are connected with the Central Canada Loan and Savings Company to your knowledge? A.—No.

Q.—Or the Canada Permanent? A.—No sir.

Q.—I see you had an application for $5,000 insurance from C. W. Mitchell on the condition that the first premium be expended in advertising; was that carried out? A.—No doubt it was; I don't know about it.

Q.—That is a system of rebating I suppose? A.—No sir, it is sometimes done. You are going to do some advertising any way, and you say, now you had better take out a policy with us and instead of paying for the advertising we will credit up against the premium the charge. Every company does that. It is not a rebate. You get your advertising and he gets the insurance.

Q.—(Reads from Minute beginning with the words "The matter of the application of $5,000 of insurance from C. W. Mitchell, etc.") That is, I suppose, a special commission was allowed to the agent who got the transaction through? A.—I should think so.

Q.—What does this Resolution mean: "Letters were also read from Messrs. W. A. Black of Halifax and

44th day, June 21, 1906. Crown Life. (Charles Hughes, Ex'd.)

J. Stuart Tupper of "Winnipeg, etc." (reads Minute)? A.—That is that 15 per cent.

Q.—That applied not only to Directors, but to their relatives and business associates? A.—Yes sir. We got very little out of it.

Q.—I should think you did? A.—I don't mean in the way of returns; I mean in the way of insurance; probably a dozen policies came in. I wish we could make contracts with our agents on that basis, 15 per cent. for five years, and seven years in some cases; I wish we could.

Q.—You think that would be more profitable to the Company? A.—Yes.

Q.—It would induce more persistent business? A.—Yes.

Q.—What is the scheme in which you have first, second and third degrees? A.—If a man writes $10,000 within three months we give him a little badge that is inexpensive and $10. If he writes another $40,000, makes it up to $50,000 within a year we give him $50, and another badge which does not cost a great deal. If he makes it up to $100,000 within two years we give him $100 and a ring that costs us $10 or possibly $15.

Q.—Is that a scheme of bonusing agents? A.—Yes.

Q.—Is that adopted by companies in Canada. A.—I am not very familiar as to whether they have adopted it. I know it has been done across the line.

Q.—That is one of the things the New York Legislature attempts to stop? A.—Yes.

Q.—You are starting it in a small way? A.—We started it long ago.

Q.—You have started that in a small way? A.—Yes.

Q.—And that is one of the evils that is being attempted to be stamped out in New York; besides these large commissions you are endeavoring to add bonuses? A.—I should not call it an evil; not so small.

Q.—It is the size of the bonus? A.—Yes.

Q.—It would be a small bonus for a small company, and when you get that started in a large company, a large company would be offering large bonuses. You were not driven to do that by other companies establishing the precedent? A.—I expect it is quite likely an idea that Mr. Roberts picked up from an American company.

Q.—You know of no other Canadian company that is doing it? A.—No. There is this to be said, outside of the actual cash bonus that goes with the thing there is no doubt that some of the agents get actively interested in it.

Q.—I should imagine that if you gave them a present of $10,000 they would get more interested? A.—I mean outside the cash.

Q.—The badge or to be in the degree? A.—Yes, and to be able to tell another agent, "I got the second degree; I am a man."

Q.—Does it not involve in some of the American companies in a certain degree that he shall be receiving sometimes $50 and over a month just to be in that degree? A.—I believe it does.

Q.—That is a bad system, is it not, if you are already paying these agents too much, as your Head Office people say you are? A.—A big bonus system is not a very good system.

Q.—You are starting it? A.—We have started it. I don't want you to say we are starting it to-day.

Q.—It was before your time? A.—Yes. I dont care for myself, but I dont want the Crown Life put on record as starting that system to-day.

Q.—If it is a good thing you might as well start it to-day? A.—Excepting in the face of the criticism there has been of the bonus system of the United States. We would think a long while before we would inaugurate a bonus system to-day.

Q.—Are you thinking of stopping it? A.—No.

Q.—You are just as bad as if you were thinking of commencing it? A.—All right.

Q.—There has been no discussion of stopping it at all? A.—No.

Q.—And carried out by competition between companies that would get to be a very bad feature in insurance? A.—It might.

Q.—And you are responsible for it as far as Canada is concerned when I say you I mean your company, not you personally? A.—I would not say so, I don't know; I doubt it in fact.

Q.—Would you suggest any other company that is doing it and I will let you know later whether you are correct? A.—I would suggest you ask the other first, and I think you will find most of them did it before we did.

Q.—This is the first case I have met with; probably it was the different de-

grees that caught my eye? A.—I think that part of it, making so much of it being an order of merit and that sort of thing, that might be a new idea.

Q.—That might be an idea of your own? A.—Yes.

Q.—I notice Mr. Henderson went through the degrees very rapidly? A.—Yes.

Q.—You had a report made by Mr. W. T. Standen, Consulting Actuary? A.—Yes, I sent that report over here.

Q.—Was there a private report and a public report? A.—I believe so.

Q.—Have we both of them? A.—Yes.

MR. TILLEY: Probably it would be best I should read those through before actually putting them in. Probably there are matters that are private in them, and if necessary I can put them in afterwards.

JUDGE MACTAVISH: Yes.

MR. TILLEY: Q.—I notice on the 27th March, 1905, in the Minute of the Executive Commitee there is some reference to a claim by Davidson; has that claim been paid or is it disputed? A.—It is a disputed claim.

Q.—Tell me the nature of the dispute? A.—Mr. Davidson insured his son in our Company and the policy was allowed to lapse. After it had been lapsed some time the boy got sick, I believe he went South for his health, lung fever, or something, and he came back. A little while after that it was revived upon the personal statement of the boy and his father that he had had nothing the matter with him since the policy was taken out. About three months later the boy died.

Q.—Of what? A.—Consumption. At first we were going to pay the claim, and then in going over the papers more carefully they discovered about this illness the boy had had after the policy had lapsed, and before it was reinstated, and we took that matter up and it has never been settled to this day.

Q.—How long ago was that? A.—About two years ago; it was the end of 1904. I may say I saw Mr. Davidson on the matter myself quite recently, and it is an amicable disagreement. Mr. Davidson told me three or four weeks ago if we did not want to pay it there is one thing we could be certain of, that he would never sue us for it. He is very friendly towards the company.

Q.—Did you make him any offer in connection with it? A.—Yes, we made an offer of $1,000.

Q.—Would not he take that? A.—The cheque lay for some time and he didn't take it.

Q.—And he won't take it? A.—I think he will.

Q.—But he is not taking what you offered at any rate? A.—Not to-day, I think the probable objection is that they realize our position, but at the same time they don't want to admit they stated the boy had not had an illness when he had.

Q.—The illness that he neglected to state, was that the illness he died from? A.—A similar sort of thing I understand.

Q.—Do you know that to be a fact? A.—Yes, as I have the thing in my head he was pretty sick with his chest and a little later on he died of consumption. We don't want to force the facts on the Davidson family because they are very friendly to us, and later on they will take the cheque, and we don't want to go to them and say, "you told a whole lot of lies," and have a row. If we leave the matter to simmer down it will be all right. If you have ever been down in Prince Edward Island you will find you have to let everything rest that is being settled.

MR. KENT: Why was not he re-examined? A.—We will take it on his personal statement without a medical examination within a certain time.

—Mr. Tilley filed claim papers which was marked as Exhibit 251.

Q.—Have you your Policy Register here? A.—We sent it over this morning.

Q.—Had you anything to do with fixing the rates of your Company? A.—No sir.

Q.—Do you know whether they were fixed or approved by an Actuary? A.—I believe they were fixed probably by the previous Secretary.

Q.—By whom? A.—Arthur J. Hughes.

Q.—I notice you advertise that they are lower than other Companies? A.—They are slightly lower.

Q.—I suppose that is just in an effort to get business? A.—I should think that was very probably the idea.

Q.—Do you know whether these rates are sufficient? A.—I should think they are, I have not gone into them to any great extent, generally speaking, yet. There is not a very great deal of difference between them

44th day, June 21, 1906. Crown Life. (Charles Hughes, Ex'd.)

and the average rates of the other companies.

Q.—I suppose all young companies' rates are fixed to be a little under the older companies? A.—As a rule.

Q.—To make that an argument for the young company's agent as against the argument of the older company's agent? A.—Yes, although some young companies claim there is no need for it.

Q.—I suppose you continue that just so long as you think there is a need for it, and then gradually creep up to the standard? A.—I don't know, there has been no suggestion of altering so far, unless it is the endowment rates.

Q.—Do you know how your estimates compare with other companies'? A.—I believe they were made by taking several American, several Canadian and several British companies and adding them altogether, and taking the mean; that is the way they were made up.

Q.—I am told you estimate profits at age 25 on ordinary life plan at $137? A.—That is right.

Q.—I am told that the Canada Life estimate for the same age on the same policy is $108, $29 less than your estimate, and your premium is fixed a little under theirs? A.—Yes.

Q.—That does not seem to be very consistent; I am told that your estimate for the same age for a twenty year accumulation policy is $223? A.—Yes.

Q.—And the Canada Life $183, or $40 less, and that you have your premium less than the Canada Life? A.—Yes.

Q.—I just selected the Canada Life at random as an older Company, and some of the estimates in the Canada Life I think were not even realized; is that fair to say yours are in the same ratio all the way through every age—35 you estimate $168, an older company $145; $284, an older company $247; $228, an older company $201; $397, an older company $353; $344, an older company $294; $614, an older company 501—and it is the same apparently all the way through? A.—Yes.

Q.—Your company cannot expect to realize those estimates? A.—Well, I suppose they did expect when they made them up.

Q.—How could they expect to when this older Company's estimates were lower? A.—Is that an estimate of the Canada Life, that is not the result, is it?

Q.—No, I am taking estimates; you have had no results yet? A.—No.

Q.—One can imagine that estimates would be made with a rather liberal hand in a case like that? A.—Yes.

Q.—Is that proper? A.—I don't like estimates at all myself.

Q.—Have you ever done anything since you have been Manager to stop the practice of putting out estimates in your Company? A.—Not to stop putting out estimates.

Q.—Have you checked the estimates to see whether they are high or low? A.—No sir, we have thought of revising them altogether.

Q.—With the intention of bringing them to a lower standard? A.—Yes.

Q.—Why have you thought it necessary to do that? A.—We would rather have them lower and when the time is up realize them, or possibly realize more.

Q.—Some chance to come near them? A.—Yes.

Q.—The company has been long enough in existence now to commence pulling down the estimates—it is getting time to bring the two things a little closer together? A.—Possibly. There has been no suggestion of raising the premiums except regarding endowment policies.

Q.—That is under consideration? A.—Yes.

Q.—And there is a suggestion of bringing down the estimates? A.—Yes.

Q.—And I suppose it is fair to say that with a young copmany those estimates have been used very broadly with the insuring public? A.—No doubt they have.

Q.—And they are improper? A.—I have told you how they were made up.

Q.—I am not asking you how they were made up, you know they are improper; what do you say about it; you are an Actuary? A.—I doubt if they will ever be realized.

Q.—You know they won't be realized; you are on your oath, you cannot pretend that these estimates which are so much higher than the older companies', should be realized, can you? A.—I have not gone into them to any extent.

Q.—But in your opinion they are too high? A.—In my opinion they are too high.

Q.—Can you say how much too high on an average? A.—No, I have not gone into it.

Q.—10% too high? A.—I could not say sir. Before I alter these es-

44th day, June 21, 1906.

Crown Life. (Charles Hughes, Ex'd.)

timates I am going into the matter thoroughly.

Q.—Don't you think it is time it should be done? A.—I do.

Q.—You have not started it yet? A.—No sir, we have been a little busy this year.

Q.—You have the Insurane Register here, in the Insurane Register opposite policy 13641, which was issued January 1st, 1906, I find written in "Dated back to 20th September, 1904"—can you tell me why that was done? A.—In that particular policy I don't know, but it is possible that the man might have had, for instance a twenty year endowment policy for $1,000, and been unable to keep it, felt he would rather have $2,000, 20 payment life.

Q—Let us have the fact? A.—I don't know the fact. We can get the information over the telephone.

Q.—You cannot say anything about that at the present time? A.—No.

Q.—Policy 13,631 is a policy on G. A. Hughes, who is he? A.—I don't know.

MR. MARKS: He is a brother of yours, Geoffrey.

Q.—Written in the outside column, "Age taken at last birthday," usually you take the age at the next birthday? A.—Yes.

Q.—Why is the age for G. A. Hughes taken at last birthday? A.—I have no idea, it was before my time; that would mean it was dated back to make it that.

Q.—Dated back a year?

MR. MARKS: Not necessarily, his birthday may have been 6th December, and it was dated the 5th.

WITNESS: I have no idea when his birthday was, I have 14 brothers and sisters; I don't know him as G. A. Hughes.

Q.—Will you find out about that? A.—Yes.

Q.—You issue a good many policies with a lien? A.—Yes.

Q.—What is the nature of that transaction? A.—If a man applies to you; for instance his mother died of consumption and he was 25 years old, the doctor would take into account the fact that he was of good weight and nothing the matter with him apparently to-day, and put a lien that would run off say at about 35 or 40, when the consumptive danger was over.

Q.—The doctor would anticipate if he lives to that age he will be all right? A.—Yes.

Q.—And the lien is reduced year by year till that period comes? A.—Yes.

Q.—Are those computed by an Actuary? A.—It is a matter of consultation between the doctor and myself.

Q.—It is fixed by a consultation merely? A.—Yes.

Q.—Are your advances to agents secured? A.—No sir.

Q.—In your return I notice you describe those as being secured? A.—Merely secured by commissions.

Q.—That is not a very common meaning of the word "secured" is it, that is what you mean by it? A.—Yes.

Q.—And when you call those secured you do not mean they are secured between you and the agent any more than he has to earn commissions to satisfy them? A.—Exactly.

Q.—That is rather an odd meaning to the word secured, is it not? A.—I think it is, yes.

Q.—Your company is able to supply something that Mr. Kent was asking about this morning as to the nature of the statements that are made to proposed shareholders in a new company; I suppose this is one of your circulars that was issued when you were trying to get subscriptions for stock? A.—Yes, it is.

—A circular re stock subscriptions flyed as exhibit 252.

Q.—(Reads circular down to the words "The chief reason for the great security of life insurance stock is that the amount realized by its sale is not required for the regular business purposes of the Company, it being in the nature of a guarantee fund to its policyholders to provide for a most remote and improbable contingency")—That is hardly accurate, is it? A.—No, it is rather flowery.

Q.—(Continues reading circular to the words "As a profitable investment the stocks of life insurance companies cannot be surpassed. The dividends paid to the shareholders of most of the Canadian companies have been very handsome, ranging from 6 per cent. to 30 per cent. on the amount of paid-up capital")—

JUDGE MacTAVISH: Any question about that? A.—The statement that it is a good investment when the company is on its feet is very true; there is hardly an investment to compare with it after you have got over the initial stage.

MR. TILLEY: Q.—(Reads balance of circular.) I see your not-taken poli-

44th day, June 21, 1906.

Crown Life. (Charles Hughes, Ex'd.)

cies amount to considerable; in 1902, which was the second year of the company, 16 per cent.; 1903, 30 per cent; 1904, 23 per cent; 1905, 17 per cent.; do you know whether any of those policies were issued in the last month of two of the year in order to make a good showing for the year? A.—As far as I know we have never done anything out of the ordinary to push business at the end of the year, beyond writing and telling agents that the end of the year is coming.

Q.—Do you not find that these not-taken policies are chiefly policies that were taken in the last month of the year? A.—I don't think so.

Q.—They are well scattered throughout the year? A.—Yes.

Q.—And it is not due to any attempt to get the returns up for the end of the year? A.—No.

Q.—Your lapses of the business in 1904 seem to be about 20 per cent., is that right? A.—Yes.

Q.—Is that much for a company the age of yours? A.—I think it was very favorable.

Q.—Have you that information now as to those policies I asked you about a short time ago? A.—Yes.

Q.—The first policy I have mentioned seems to be a policy issued on a man after his son had been previously insured, and by reason of the son's policy terminating being surrendered, was it? A.—He asked to have it changed, to put it on his own life instead of on his son's life.

Q.—You had the son insured and you substituted this insurance on the father? A.—Yes.

Q.—And you dated it back to the age when the son's insurance was put on? A.—Yes.

Q.—And then you would collect from the father the difference for the premium for the two years? A.—Yes.

Q.—Is that a common practice in insurance companies? A.—No sir, but any company would do it if such a proposition was brought up.

Q.—Do you think any company that has insurance on one person, for instance, a son, a young man, would substitute that and put it on the father, dating his policy back to the time when the son's insurance was taken out, he paying the difference in premium? A.—Yes.

Q.—Charging the father the father's rate for that age? A.—Yes.

Q.—Then the other seems to be a case where the birthday was on the 3rd December, and the policy was issued on the 5th December, and it was dated back, taking the age on the 3rd of the month. So that explains it just as you intimated might happen. Your company is not in the habit of dating back policies in order to give a person a preference? A.—No, but if you applied to-day, and your birthday was last month, we would date it back then and make the premium due then.

Q.—Is that a common practice among insurance companies? A.—I believe so.

Q.—Is there any limit to the time they will run back? A.—Oh, yes, it is only done within reasonable time.

Q.—What is a reasonable time? A.—We would take each case on its merits.

Q.—Just a case of getting the policy, is it? A.—Yes.

Q.—If the insured will go in, age at next birthday, even a week after his last birthday, you take him that way; if he won't you take him at the age of the birthday that has just passed. That is not fair, is it as between applicants, it is a species of rebate or commission, discrimination.

A.—On the other hand, his premium is due so much earlier the next year.

Q.—When does his premium become due, a year from the time that he takes out his policy, does it not? A.—A year from the date of the policy. We date the policy back.

Q.—You think that is a compensating advantage, do you; you get the premium a few days earlier, but you get a smaller premium? A.—It is a common practice.

Q.—I notice you had a great deal of endowment insurance as compared with other classes? A.—Yes.

Q.—Do you think that is advisable for a young company? A.—It uses up more of the capital to put up the reserve, but it has this compensating advantage, that you are putting up a higher reserve, and so when the death claim does come in you don't lose so much, you only lose the difference between the reserve and the face of the policy, and the higher the reserve the less the net actual death loss is.

Q.—Have you considered the advisability of a new company commencing with term insurance and pushing it for a time, where the reserve is not so high? A.—It is rather risky.

Q.—By reason of what? A.—Apt to be loaded up with undesirable lives.

Q.—That is to say, the death loss is heavier? A.—Yes.

44th day, June 21, 1906.

Crown Life. (Charles Hughes, Ex'd.)

Q.—I have a statement here taken from some of the information you have furnished, showing the new premiums for each year and the commissions for each year, commencing with the year 1901. Apparently the percentage of commissions to new business was 85.4 year, 1902, were 64.5 per cent. of the new premiums. The commissions in 1903 were 59.2 per cent. of the new premiums. In 1904 68.7 of the new premiums, and in 1905 75.1 per cent. of the new premiums. Would those be the figures about as you would have thought them. Those can be checked. 85.4 seems to be a very high percentage? A.—Yes.

Q.—Can you account for that in the first year of the business? Was not that by reason of directors' insurance and so on to get some prominent people into the company? A.—That would make it lower, because they would get only 15 per cent., the agent 65.

Q.—Didn't you issue some special policies? To get prominent people into your company? A.—Not that I know of, no.

Q.—You cannot account for that 85.4 per cent.? A.—They are just commissions.

Q.—Then take the commissions on renewals. In 1902 the commission on renewals was 12.5 per cent. of the renewal premiums. In 1903, 12.9. In 1904, 10.9, and in 1905, 9.5. How is it that your renewal commissions can be such a high percentage of your renewal premiums? A.—They may be on the 15 per cent. contract.

Q.—Then you must have had a lot of that sort of insurance? A.—There was very little, but at one time Mr. Roberts had an idea that he could get agents to work for the Crown Life for, I think, it was 25 per cent. the first year and 15 per cent., the same thing as the directors' arrangement. He found out that that would not work, but we did have some agents on that basis.

Q.—And that would account for the higher rate in those years on renewal premiums? A.—I think so.

Q.—There is no other reason that you can give for it any way? A.—No.

Q.—Then you have handed in a loss and gain exhibit. A.—Yes.

Q.—And you have not been accustomed to making one up, have you? A.—No.

Q.—And you have experienced some difficulty in getting the loss and gain exhibit prepared for the year 1905 to agree with the Government return? A.—Yes.

Q.—Now, just going over that; (Loss and Gain Statement filed as Exhibit 253.) I see that your expenses for the first year amounted to about four times the margins that you had for the year's business. A.—Yes.

Q.—That is it would take four or five years to make up the loss that would be incurred in that business. A.—Yes.

Q.—A loss amounting to $43,033.69. A.—Yes.

Q.—But from that you might probably take part, at any rate, of the $16,323 that appears to be the gain on lapses and surrenders. A.—Yes.

Q.—I suppose that you would give the usual stock answer to the loss on the first year's business, that it is the competition, the high commissions, rebates and so on. A.—Yes.

Q.—And you have told us all you can say as to the impossibility of stopping that from your standpoint? A.—Yes, I don't know how it can be stopped.

Q.—The Crown Life has taken no special precaution to stop it since you have been appointed? A.—No.

Q.—No instructions given to agents to stop giving rebates. A.—They have general instructions not to do it unless it is an absolute necessity.

Q.—Have you made any effort to change the basis of payment by spreading the commission over four or five years rather than pay it all or substantially all out of the first premium. A.—No, and for the reason that we tried to do that two or three years ago and we got one or two agents to work on that basis and they changed to the other after a time. It is not a success.

Q.—It is not a success by reason of the agent not being satisfied with that sort of a contract. A.—Yes.

Q.—And he can get one more satisfactory to him, from another company? A.—Yes.

Q.—Do you know any objection to making the basis of payment of agents some such method as that, by legislation? If it was brought about by legislation would be that an improvement of the condition and assist in preventing rebates? A.—Of course I am not a great believer in legislation. Not any more than is absolutely necessary.

Q.—Do you say you think it would

44th day, June 21, 1906.

Crown Life. (Charles Hughes, Ex'd.)

not be possible to bring it about by legislation? A.—I have not looked into it much, but it seems to me that there might be a way of getting around it, and the company that got around it would have an advantage over companies that had a supersensitive conscience and would not get around it.

Q.—You think it difficult to frame legislation in that matter so that it is not possible to avoid it in some way? A.—For instance there are anti-rebate laws in every State of the Union, almost, and there is, I suppose, as much rebating in every State of the Union as in Canada.

Q.—What percentage is given away in rebates? A.—We have some agents who never give any. We have some who will frequently give a rebate. If we are thoroughly convinced that a man is giving rebates all the time, we get rid of him.

Q.—What rate of interest do you earn on your money? A.—4.6 per cent.

Q.—And your investments are chiefly in what class of security? A.—Bonds, municipal bonds, and bank stocks, loans. That is about all.

Q.—Have you supplied a complete list of your investments to the Commission? A.—Yes.

Q.—There have been no loans to directors or officers that are not shown there? A.—No.

Q.—Everything is disclosed, whether there was security for the loan or not? A.—Yes.

Q.—Then there were no profits or losses on sales or maturity of securities, and you have had small increases in the market value? A.—Yes.

Q.—I notice that part of your increase was in respect of bonds that you bought from Osborne & Francis and wrote up at the end of the year they were bought? A.—Yes.

Q.—You bought them at 98. Was it Chicago and Milwaukee bonds? A.—Canada Rolling Stock—or Ontario Power Bonds.

Q.—You bought them at 98 and 95 and put them at 101 at the end of the year? A.—Yes, they increased about $100.

Q.—And that was on a certificate of value made by Osborne & Francis who sold them to you? A.—Yes, but that certificate was got in respect to all our holdings. It had nothing particular to do with that. We sent them a list of what we owned and asked them to tell us what value to put them in at.

Q.—That covered all your securities? A.—Yes.

Q.—Then you have shown in your Loss and Gain Statement all the items set out in the Exhibit, and so far as you know you have set them all out truly? A.—Yes.

Q.—And in the best way you could make them up? A.—Yes.

Q.—But there is not perfect agreement between that and your return to the Government? A.—No.

Q.—Your return to the Government shows that there is a loss of about $22,000 in the year's business? A.—Yes.

Q.—And according to your statement made up here, the loss is only $9,000 odd. A.—Yes.

Q.—The difference amounts to about $12,000. You don't know where it is to be found. A.—No.

Q.—And you cannot suggest where it is to be found? A.—We might possibly have our reserve this year $12,000 too high.

Q.—That is to say in the return you have sent in to the Government you may have computed your reserves on policies on too high a basis by some error? A.—Yes.

Q.—Have you checked that to see? A.—No, I have looked over it hurriedly and I don't see anything to suggest such a mistake.

Q.—But unless it is in some such item as that you cannot say whether the reserve is correct or not without going through and checking it? A.—No.

Q.—And unless it is in some such item as that you cannot say whether it is in the return? A.—No.

Q.—This Loss and Gain Exhibit should be required from companies every year, should it not? A.—I have been opposed to a Gain and Loss Exhibit.

Q.—Why? A.—This is the first time I have seen this, but the common form of Gain and Loss Exhibit gives rise to an opportunity for making about a dozen different percentages, and as so many of the amounts are frequently made up by estimate the company would have a tendency in making it up to adjust all the different estimates so that at least some of the percentages would come out very favorably to the company.

Q.—That is the only objection you have to it? A.—Yes, that is the only objection. If everything could be ac-

44th day, June 21, 1906.

Crown Life. (Charles Hughes, Ex'd.)

tual facts in it, I think it would be all right.

Q.—At any rate there is a discrepancy between your annual return and the way you make up this Loss and Gain of $12,000 in the year 1905? A.—Yes.

Q.—And you cannot tell where you have made the mistake? A.—No.

Q.—You have the usual impairment of capital for a young company? A.—Yes.

Q.—Your capital paid in amounts to how much? A.—At the end of the year it was about $129,000.

Q.—And what impairment did you have? A.—$109,000.

Q.—And then besides that there was the premium that was paid on the stock and that was gone through. A.—Yes.

Q.—Have you decided on any means of making good this impairment? A.—Well, some of our stockholders have paid in already this year additional payments with a premium on it and we hope to get in enough so that with the premium on it and possibly not pushing so hard for new business, will let us out a little easier. As a matter of fact whether we push or not I suppose no company will write as much business this year as they did in other years.

Q.—Why? A.—On account of the Royal Commission.

Q.—Then it comes in a very good year for the Crown? A.—Indirectly it does.

Q.—You make loans on policies at what rate of interest? A.—5 per cent.

Q.—To all your policyholders? A.—Yes.

Q.—And you make some loans through the Insurance Agency? A. Yes.

Q.—Is there any connection between the Crown Life and the Insuranec Agency? A.—Only as individuals. There is no business connection. The President of the Crown Life is Managing Director of the Insurance Agency Corporation. The Insurance Agency Corporation started up with the idea of making loans on policies at a lower rate of interest than Canadian or even American companies were making. They were, I believe, in those days, charging something like 10 per cent. They are now practically winding up. They issued debentures, you know, and with the money so obtained made loans on policies.

Q.—Now they make loans on policies and then get loans from you on them? A.—Yes, they have done that a little, lately. We have got $20,000 that way.

Q.—But you say the Insurance Agency is winding up its business now? A.—Yes, they are not spreading out.

Q.—Is that $20,000 loaned on your own policies? A.—No, it is on other companies' policies.

Q.—And you lent it at 5 per cent.? A.—Yes.

Q.—You opened books showing your legal reserve for 1901-2? A.—We have got a valuation book, where the reserve as against each individual policy.

Q.—I am told you had an account open for your reserve and discontinued using it?

MR. MARKS: There was a ledger account opened but for some reason the auditors did not think it necessary to put it in. They had a statement at the end of the year showing the account. Mr. Edwards saw it the other day and he thought it a matter of opinion. He did not agree with our auditor.

A.—I did not know companies carried a ledger account of their policy reserve? It is a new idea to me.

Q.—Probably if you had kept it accurately there would have been no discrepancy in the Gain and Loss Exhibit? A.—Possibly so.

MR. TILLEY: That is all except as to these reports. I will read through them to see whether I desire to put them in.

By MR. GEARY: Q.—Where is your business carried on for the most part? A.—All over the Dominion.

Q.—Has it been from the beginning all over the Dominion? A.—Yes, right from the start.

Q.—What equipment have you throughout the Dominion? A.—We have agents from one coast to the other.

Q.—Regular establishments where you rent premises? A.—We rent offices in Montreal and Halifax. We don't rent offices anywhere else.

Q.—Part of your, if I may say rather large, expenses, in the last two or three years, I suppose, has been contributed to by the fact that your business was so diffused over the country? A.—Yes.

Q.—If you had stayed at home and quietly cultivated the fields of Ontario, would it have been better? A.

—It would probably have been less expensive.

Q.—I would like your opinion on this, a new company, in order to get itself on a proper basis, has to choose between staying at home and working the business along until it gets going a little while, as one course, and the other is to expand rapidly over the Dominion; you adhere to the former one? A.—Except in this, if I was going to start a company, and had a reasonable idea that I could make the company succeed, I would endeavor to get a large capital subscription, say $250,000, and with a large premium on it, and open all over the Dominion at once. But if you are going to start in small, as we did, comparatively——

Q.—The safe way is to condense your expenditure, so to speak. A.—Yes.

Q.—And have one head office in one place, and in Ontario there is work to be done for a life insurance company? A.—Yes, but the competition is very keen in Ontario.

Q.—But there is work to be done at less expense than going far afield? A.—Yes.

Q.—Did your rather high expense occasion any discussion at the time, say. of the last Annual Statement or Meeting? A.—No.

Q.—You never heard it mentioned amongst the directors that the expenses were considered rather high by them? A.—No, I don't think I have heard it raised. Mr. Marks, the Secretary, would know.

Q.—It was not a matter of discussion among the directors at the time that the expenses were high?

MR. MARKS: No.

Q.—Are your directors paid whether they attend the meetings or not? A.—No, they are paid for each meeting they attend.

Q.—Did you ever consider that in the question of surrender value—you pointed out the difficulty that you might have to distribute that, and then have to get it back—you could carry that to the account of the policy-holder as a bank does? A.—Oh, yes, we could do so.

Q.—It has been done, as a matter of fact. I did not know whether you had any objection to taking that course. Your company has been in business now and has passed through its fifth year? A.—Four years and a quarter.

Q.—Your impairment is still increasing slightly, and your ratio of operating expense to premium income is increasing slightly. Have you reached the point where you turn the corner, do you think, or how far will you have to go before you can do that? A.—Well, I am hoping that by keeping the business within bounds, not pushing for a great volume of business, and keeping a close watch over expenses, that we can turn the corner shortly. I would not confine myself to a day, but possibly in the next two or three years. In the immediate future.

Q.—That is, experience proves that a conservative policy in a new company is the better policy. A.—Excepting, as I said before, I would still prefer having a big capital with a surplus on it.

Q.—And then you have to pay interest and dividends on that capital later? You have been connected with insurance for such a long time that I venture to ask your opinion as to what the proper function of an insurance company is. Is it to enter into such contracts as will afford protection to a man's family, or should there be an investment feature in connection with it, from the policy-holders' standpoint, if you can. A.—Well, that is my own standpoint. Give me, I say, a 20 Payment Life or a 20 Year Endowment Policy, every time.

Q.—With profits? A.—With or without, I don't care which. I don't think it matters one way or the other. You will get pretty much what you pay for, whether it is with or without profits, I am convinced of that.

Q.—And from the standpoint of the man who wants to make money, you think he can make money by tacking on the investment feature? A.—He will break about even. It doesn't matter which kind he takes out.

Q.—He takes just a pretty fair chance. A.—I think so.

Q.—But if he takes it without profits he is taking no chances. A.—He is taking no chances. He won't get anything back beyond what is mentioned in the contract.

Q.—He knows, however, what he is spending his money for and he gets that. A.—Yes.

Q.—It is, of course, cheaper and possibly could be made cheaper yet by applying the profits in reduction of the premiums in future years, what profits there may be. A.—On the non-participating business?

Q.—Yes. A.—You have got to go very carefully about that.

Q.—It would be fair to give that class all the profits they earn, would

it not? A.—Well, I don't know. You are leaving a small margin on your premiums and you begin to distribute profits and later on you might experience a little heavier death loss on it, and you have got a small margin to recuperate from.

Q.—You would not want to do that unless they were actuarially safe, of course, but all the profits there are in some companies made out of without profit business go to the with profit business or the shareholders. A.—Yes.

Q.—Does that seem to be right? A.—In a mutual company they would and in a stock company they would go to the stockholders.

Q.—Should they not go back to the without profit? A.—No, the man wanted a certain contract and he has got it.

MR. TILLEY: I think that I should put in these reports that were made by Mr. Standen in 1904. There are two of them. The first one was read to the Board and is referred to in the minutes as the public report, I suppose. A.—I suppose that is the one, yes.

Q.—And the other one would be for the Board of Directors? A.—Yes.

Q.—This is dated August 15th, 1904. (Reads Exhibit 254.) That is the Public Report, I suppose? A.—Yes.

Q.—And then there is another which is not described as public and I suppose was not intended to be public. A.—I judge it would be.

Q.—It is dated the same day and is also addressed to the directors. (Reads Exhibit 255.) That came up at a meeting of the Board of Directors on the 12th September, 1904. I will put in a copy of those minutes as an exhibit. (Reads Exhibit 256.) Has any action been since taken about the capital stock? A.—There has been a great deal more capital stock paid in since then.

Q.—And you are delaying pursuing that matter vigorously, owing to present conditions? A.—We have got in about $26,000 on capital this year, 1906, and the premium on that is very nearly $7,000.

Q.—The fees of directors that were reduced in this report were $10 and now are $5. A.—Yes.

Q.—It was after this resolution, I suppose, that Sir Charles Tupper resigned the Presidency? A.—Yes.

Q.—Pursuant to the feeling of the Board as indicated there that expenditure in that line should be reduced? A.—Yes.

Q.—Has there been any inquiry into real estate owned by the company? A.—We don't own any. We were renting a floor and it was more convenient to put the building in our name and it was an advertisement for us.

MR. KENT: You have been compelled to call for payments on your capital stock every year? A.—Yes.

Q.—That is, you have had to call on your shareholders to put up what you required for expenditure? A.—Yes, the original idea, I may say, was that that was a better way than getting in a large sum in the beginning. Personally I differ from that.

Q.—Do you think your shareholders are likely to continue to do that very long? A.—I am in hopes to get in enough this year so that we will be done with the matter once for all.

Q.—You are not a book-keeper at all, Mr. Hughes? A.—No.

Q.—When you were speaking of the changes required in books you were drawing on your imagination? A.—When I was speaking of changes required in books?

Q.—Mr. Tilley was questioning you about keeping additional accounts? A.—Oh, for the reserve. I have examined a great many books and it was the first time I knew of an insurance reserve account being kept in the general ledger.

Q.—You said it would require an additional set of books? A.—Yes, in operation you would require one set of books to show the transactions with the policyholders of the non-participating class and another set to show the transactions with the participating.

Q.—Wasn't it simply a question of opening two or three additional accounts? Had you been a book-keeper I would have questioned you at greater length on the subject. As you are not a book-keeper it is not necessary to take the time. The prospectus that was issued, the one that has been filed; I suppose it is unnecessary to ask you at this date whether it is true, if you were putting out an additional prospectus to-day you would not endorse the statements made there, I suppose? A.—I should not go to that length, but I have always been convinced, and still am, that stock in a life insurance company, even taking it in a young company with an impaired capital, is probably as good a thing as you can get, because

44th day, June 21, 1906.

it will be for you and your children and your great grandchildren, it will still go on drawing a satisfactory percentage and you would not have that in any other kind of investment.

Q.—Hindsight is better than foresight. Don't you think the Exhibit is a case in point, coud not anyone complete it with statements that would have prevented a dollar of stock ever being subscribed, without going outside the bounds of truth and decency? A.—I did not write that circular. I had nothing to do with the formation of the company.

Q.—And I think you would not write a similar one if you were founding a company to-day. A.—Well, I am apt to err on the side of conservatism in everything.

MR. TILLEY: We will commence another company in the morning, your honour.

(At 4.55 p.m. on Thursday 21st June, adjourned to 10.30 a.m. on Friday 22nd June, 1906.)

FORTY-FIFTH DAY.

MORNING SESSION.

Toronto, Friday, June 22, 1906.

THE CONTINENTAL LIFE INSURANCE COMPANY.

MR. TILLEY: I propose to take up the Continental Life Insurance Company this morning.

Mr. J. B. Holden appeared for the Company.

GEORGE B. WOODS, sworn, examined by

MR. TILLEY: You are the General Manager of the Continental Life Insurance Company? A.—Yes sir.

Q.—And you have occupied that position continuously since the Continental amalgamated with the Farmers and Traders and procured an Act ratifying the agreement? A.—Yes.

Q.—Prior to the amalgamation of the two companies which company were you associated with? A.—I was with the Continental, in fact I have been with the Continental Life since the inception.

Q.—The reason I ask you that question was I notice you signed the amalgamation agreement as Managing Director I think of the Farmers and the Traders? A.—Yes, I was Managing Director of the two companies for a few weeks.

Q.—I assumed that was probably the

Continental Life,
(G. B. Woods, Ex'd)

way that in contemplation of the amalagamation going through you became managing director of both companies? A.—Yes.

Q.—So that prior to the amalgamation you had nothing to do with the Farmers and Traders? A.—No.

Q.—You were not a shareholder in it? A.—No.

Q.—Except? A.—Except for a few weeks.

Q.—And you had nothing to do with the policy or management of that company? A.—None whatever.

Q.—Then how long were you with the old Continental Company before the amalgamation? A.—From its inception in fact I assisted in the organization of the company.

Q.—Who were associated with you in the organization of the Continental? A.—The Hon. Mr. Dryden and Mr. Emerson Coatsworth, the present Mayor.

Q.—Mr. Coatsworth was Vice-President I think of your company? A.—Yes.

Q.—Mr. Dryden was your first Vice-President? A.—Yes.

Q.—And he has continued President of the Continental Life from that time to date? A.—Yes.

Q.—Where is Mr. Dryden at present? A.—I think he is in Ireland, in the Old Country at present, he is on the Commission.

Q.—He is not in Canada at the present time? A.—No.

Q.—For a time Mr. Coatsworth was a Vice-President of the company? A.—Yes.

Q.—Until I think there was some formal resolution passed appointing him to be the solicitor of the company? A.—Yes.

Q.—And then he resigned his position as Vice-President? A.—Yes.

Q.—Who took Mr. Coatsworth's position? A.—Mr. Coatsworth was our first Vice-President, and Mr. Cargill was second Vice-President, and when Mr. Coatsworth resigned Mr. Henry Cargill took his place and Mr. Scott of Listowel took Mr. Cargill's place.

Q.—Later on what happened with regard to the Vice-President? A.—Mr. Henry Cargill died and Mr. Scott was moved up to first Vice-President, and Mr. Summers was made Second Vice-President, which position he holds now.

Q.—At present Mr. Scott of Listowel and Mr. G. T. Summers of

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Toronto are the Vice-Presidents of the Continental Life Insurance Company? A.—Yes.

Q.—How long was Mr. Summers connected with the Continental before he became Vice-President? A.—Since the inception.

Q.—Of the original company or the amalgamated company? A.—Of the original company.

Q.—At that time where did Mr. Summers reside? A.—Beeton.

Q.—What was his occupation then? A.—Private Banker.

Q.—Later on he sold his banking business there? A.—Yes, I believe so

Q.—You know to whom he sold it? A.—The Traders Bank if I remember correctly.

Q.—You know that? A.—Yes.

Q.—It is not a matter of indistinct memory there? A.—No.

Q.—He sold to the Traders Bank in Beeton and then came to reside in Toronto? A.—Yes.

Q.—And I suppose it was his connection with the Traders Bank in Beeton that accounts for some of your transactions taking place there and through that bank? A.—Yes.

Q.—Who was the President of the old Farmers & Traders Insurance Company? A.—Mr. Still of St. Thomas, he is now dead.

Q.—Who were the other persons who were directors of the Farmers and Traders? A.—I cannot remember correctly, I can give you the names of some of them.

Q.—Have you anything here that would give you that information—the Farmers & Traders I think commenced business in 1897? A.—I think so.

Q.—Then I will be able to get those from these reports; it was incorporated as I understand by letters patent of the Province of Ontario? A.—Yes.

Q.—It never had any private Act of incorporation? A.—No.

Q.—Apparently the application for letters patent was made in February, 1896, the application setting out that the proposed name of the company was to be the Farmers and Traders Assurance Company, the object for which incorporation was sought was the carrying on of the business of life and accident insurance; and the operations were to be carried on in Toronto, and St. Thomas; the amount of the capital stock $500,000, the number of shares 5,000 shares of $100 each; and the applicants were James Henry Still of St. Thomas, Manufacturer; John Campbell of St. Thomas; Merchant Tailor; Edgar Alexander Smith, of St. Thomas, Gentleman; James Henry Coyne of St. Thomas, Registrar of Deeds; Peter Macdonald Fraser of St. Thomas, Gentleman; and Alexander Eastman Wallace of St. Thomas, Manager of the Atlas Loan Company.

Q.—And the last five named were the first directors of the company, and subsequently, I think, letters patent were issued giving them the powers they asked for in this application? A.—Yes.

Q.—The letters patent being dated 27th January, 1897, and notice of the granting of the letters patent is set out in the *Ontario Gazette* of the 13th February, 1897, so that the Farmers & Traders Company was authorized to carry on both life insurance and accident insurance? A.—Yes.

Q.—Did it carry on both branches of insurance? A.—No, only life.

Q.—It never had any accident insurance on its books at all? A.—No.

Q.—I think there was no return put in the Provincial return for 1900 with regard to that company, merely the statement that it had amalgamated with the Continental? A.—Yes.

Q.—That was the year of the amalgamation? A.—Yes.

Q.—Taking the last return that is set out in the Government return it shows Mr. Still was the President and D. E. Galbraith was the secretary; that the authorized capital was $500,000, subscribed capital $346,900, the amount called up $34,690; it does not, I think, set out the names of the directors? A.— The directors were changed, of course some, to what those names you have read out there; there were some more names added; I suppose those names were just the applicants for incorporation.

Q.—Tell me this, at the time you commenced to negotiate with the Farmers & Traders to amalgamate its business with the business of the Continental what persons were chiefly interested in the management of the Farmers & Traders? A.—Mr. Galbraith was the Acting Manager; he was the Secretary of the Company but he was practically the Manager. There was a Mr. Fraser, who was the Managing Director, but he did not take a very active interest in the work; he had more charge of the field staff.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—The Secretary was really acting manager of the company? A.—Yes.

Q.—Was Mr. Galbraith a shareholder in the company and interested in that way? A.—I do not remember now whether he had stock or not; his name would appear there if he had. I might say he was——

Q.—Mr. J. H. Galbraith and D. E. Galbraith? A.—Yes.

Q.—So that he had $1,000 stock? A.—He was a nephew or some relation by marriage to Mr. Still, the President, who held a lot of stock.

Q.—Some $5,000 stock, I think? A.—Yes.

Q.—What other persons were the persons that negotiations were carried on with? A.—Mr. Still and Mr. Galbraith and Mr. Wallace.

Q.—Is it right to say that the negotiations were carried on with Mr. Wallace, the Manager of the Atlas Loan? A.—No, it is not right to say that.

Q.—He was a director of the Farmers & Traders at that time? A.—Yes.

Q.—And he took a prominent part in the negotiations? A.—Yes.

Q.—But not more so than Mr. Still? A.—Not as much as Mr. Still.

Q.—Who at that time was acting and representing the Continental? A.—I was.

Q.—Throughout? A.—Yes.

Q.—And who was associated with you in carrying through the transaction? A.—Mr. Fuller and Mr. Dryden.

Q.—Who was Mr. Fuller? A.—Our actuary and secretary.

Q.—Is he still your actuary and secretary? A.—Yes.

Q.—Besides Mr. Fuller and yourself? A.—Mr. Dryden.

Q.—Was Mr. Somers interested in that? A.—No, not to any extent; of course, he knew what was being done, but he did not take any active interest.

Q.—Was Mr. Cargill taking an active interest in it? A.—Yes.

Q.—Was Mr. Cargill at all instrumental in bringing it about? A.—Yes.

Q.—Was he interested in the Farmers and Traders? A.—No.

Q.—Before dealing with that, the Continental Insurance Company was also incorporated by letters patent? A.—Yes.

Q.—Under the Ontario Insurance Act? A.—Yes.

Q.—Notice of the application for the charter is contained in the "*Gazette*" of May 13th, 1899; the application sets out that the name of the company is to be the Continental Life Insurance Company, the objects for the incorporation, as set out, are to carry on the business of life insurance in all branches, and the full power to re-insure, to invest its funds in such securities as the directors may from time to time determine, subject to the provisions of any statute in that behalf; and to hold such real estate as may be mortgaged to it by way of security, and to hold real estate for the purpose of its business of an annual value of not more than $5,000, and for the said purposes to acquire and dispose of such real estate as is necessary. The operations of the company are to be carried on in the Province of Ontario, and the chief place of business is to be the City of Toronto. The capital stock is to be one million dollars, divided into ten thousand shares; and then there were a number of persons named as applicants, including Mr. Dryden, Mr. Coatsworth, R. S. Williams, Hon. S. C. Wood, Charles Trow, Henry Cargill, Dr. H. Wilberforce Aikens, A. F. McLaren, Robert J. Wilson, J. W. Scott, Angus McKay, J. B. Reid, H. S. Pell, George T. Somers, and all of the parties named were to be the directors of the company. Then the Farmers and Traders business had been in existence a year or two before the Continental commenced life insurance business? A.—From 1897, I presume, to 1900.

Q.—And your company had been operating about a year? A.—Yes.

Q.—What capital stock had been subscribed, in the first year that your company carried on business, the Continental? A.—I do not remember. It is in the annual report which you have.

Q.—This shows your receipts during 1899 A.—Yes.

Q.—Stock and stock premiums, $39,950.43; at what premium was your stock issued? A.—At 25 per cent. premium.

Q.—What call was made on the stock? A.—Ten per cent. call.

Q.—That would call for 10 per cent. of the premium? A.—Yes.

Q.—That is a usual means of floating the stock of an insurance company? A.—Recently, this last few years; since the inception of the Imperial Life, I think they were the first company to adopt that.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—And others have followed suit? A.—Yes.

Q.—The idea being to provide a fund that is not called capital for the purpose of paying the early expenses of the company? A.—Yes.

Q.—So that that money can be used to pay expenses without the public saying, or your rival agents saying, that you have impaired your capital? A.—Yes.

Q.—Was all the stock paid in cash? A.—Yes, all that is marked here was paid in cash. We took notes for stock, but we did not enter it in the report as cash until the notes were paid.

Q.—What did you do with the notes in the meantime? A.—We held them.

Q.—Did you put them in your return? A.—No.

Q.—Why did you not do it? A.—We did not take them into consideration until they were paid.

Q.—Can you tell me how much of such notes you had on hand at the end of that first year? A.—I do not think we had any notes the first year, I am sure we had not.

Q.—During the second year you received notes on account of capital stock? A.—I think we did.

Q.—Then leaving out that phase of it for the present ——? A.—I will not be positive about that at all, it is a long time ago, but I think we did.

Q.—Leaving out that phase of it, tell me to what extent these persons who are named as applicants for the charter of the Continental became subscribers for stock in that first year, 1899? A.—A number of them subscribed for 100 shares, and some for 50.

Q.—Where is your record of it; tell me what they did subscribe? A.—We have sent for the stock ledger, it will be in the Ontario Report at the end of 1900.

Q.—There is a report here for the end of 1899? A.—They will be in that one.

Q.—Hon. John Dryden was down for $10,000 stock, with $800 paid on it; Henry Cargill, $10,000, $1,000 paid; R. S. Williams, $11,000, with $100 paid? A.—That is a mistake, that should be $1,000 with $100 paid; I know personally he subscribed for $1,000. If you just read the names I can give you them all from memory, I think.

Q.—Mr. Vandusen? A.—100 shares, $10,000, with $1,000 paid.

Q.—Dr. Angus McKay? A.—Ten shares, $1,000, with $100 paid.

Q.—Dr. Aikens? A.—120 shares, $12,000, $1,200 paid.

Q.—A. E. Wallace? A.—$10,000—his name was not amongst that first lot.

Q.—He was not an applicant? A.—No.

Q.—Mr. Wallace did not become a director until after the amalgamation? A.—No.

Q.—Emerson Coatsworth? A.—Fifty shares, $5,000, $500 paid.

Q.—A. F. McLaren- A.—$2,500, $250 paid.

Q.—J. W. Scott? A.—$5,000 and $500 paid.

Q.—J. T. Somers? A.—$10,000, with $1,000 paid.

Q.—J. B. Reid? A.—$1,000, and $100 paid.

Q.—John Gillies, he was not one of the original ones? A.—He took $10,000, and $1,000 paid.

Q.—J. A. Jackson—he was not a director, the first list? A.—No, but he took $10,000 and paid $1,000.

Q.—Did all those directors pay in cash themselves the moneys that were treated as paid in on their stock? A.—Yes.

Q.—Each one of them? A.—Yes.

Q.—Did he pay it in the year 1899? A.—With the exception of Mr. Dryden, I think he paid some of it in the year 1900.

Q.—Was his cash paid in the year 1900, the whole of it? A.—Yes, I think so.

Q.—All of it paid for in cash in the year 1899? A.—Yes.

Q.—There was no allowance or deduction made to these men from their subscriptions? A.—No.

Q.—On account of promoting the company? A.—Not on their stock.

Q.—Was there anything done for them for their promotion of the company? A.—Yes, Mr. Dryden got $500 and Mr. Coatsworth $500.

Q.—When did they get that? A.—At the organization meeting I think, I think it was the first meeting of the company at the organization meeting.

Q.—Was anything else paid to them? A.—No.

Q.—Was anything paid to any other persons besides Mr. Dryden and Mr. Coatsworth? A.—None whatever.

Q.—Was any insurance taken out by any of these directors in that first year? A.—The first year, yes, I think

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Mr. Somers took out a policy and Mr. Dryden I think; I think those are the only two.

Q.—Were they given any special terms on their insurance? A.—No.

Q.—Did they pay the full premium? A.—Yes.

Q.—Without any commission? A.—Mr. Dryden paid his without any commission; I think Mr. Somers would receive a commission, he was agent of the company at Beeton.

Q.—You say he would deduct from his premium his ordinary commission? A.—Yes. Mr. Dryden paid his in full.

Q.—Without any deduction or rebate? A.—Yes.

Q.—No consideration was paid to him in connection with that insurance at all? A.—None whatever.

Q.—What rule have you established with regard to directors taking out insurance in your company? A.—In what way do you mean, about rebates?

Q.—Yes, or allowance by way of commission? A.—We would allow a director the ordinary commission I suppose, in fact we have done so where they have taken out insurance.

Q.—That has been your principle? A.—Yes.

Q.—When you speak of ordinary agent's commission what does that cover, 75 per cent. graded down? A.—No, 65 per cent. graded down, I might say in that matter there are some of our directors who would not take the commission. Mr. A. F. McLaren gave us an application and he would not take the commission. He paid the premium in full. Mr. Dryden would not take his commission; he paid his in full.

Q.—Did he take out any more insurance? A.—Yes, he has taken out several policies but he has always paid the premium in full.

Q.—Have any others done the same? A.—Yes, they have; I cannot remember just now, just exactly, but I know they have not all taken the rebates.

Q.—And I suppose the office staff and other employes of the company are used in the same way? A.—Yes.

Q.—They are given the usual agent's commission that you pay on their insurance? A.—Yes.

Q.—Why is a principle of that kind established? A.—I do not know, it is a bad principle but it is done; it is universal.

Q.—Is it uniformly done by insurance companies? A.—Yes, it is universal.

Q.—There is no reason why persons who are working in the head office and being paid salaries, that the company should not get the full benefit of their insurance where there is no expense connected with the obtaining of it? A.—None whatever.

Q.—But it is not done? A.—No; if we did not give it to them they would go to some other office and get a rebate.

Q.—Do you mean to say employees in your office can go to some other office and get the allowance there? A.—Yes.

Q.—That means this, that other companies would allow any person coming in and applying for insurance the amount of the agent's ordinary commission, or does it simply mean because these employees of yours are in the trade, so to speak, that they are given some preference? A.—I think if the individual asked for it he would almost get it.

Q.—He would either get it or would not get it? A.—He would get it.

Q.—Does that apply to your company? A.—Yes, it would.

Q.—That is if any man coming into your company would say, "I am ready to insure, and I will take out a policy for $5,000, but as I have come to you direct without an agent I think you ought to give me the commission" you would allow him? A.—I would jump at it; I would take him in a minute.

Q.—You would take him quick? A.—Ring up for the doctor to come right down.

Q.—Is that good business? A—. No.

Q.—Why do you do it? A.—Because we have to do it.

Q.—Why? A.—All other companies do it.

Q.—Have you ever done anything to try to stop it? A.—Yes.

Q.—What have you done? A.—Well, I have told our agents not to rebate.

Q.—And yet you jump at it yourself? A.—Yes.

Q.—That is not a very good example to them? A.—It is not, no.

Q.—Have you told them not to rebate unless they are compelled to? A.—Yes.

Q.—That is as far as your instructions go, you do not tell them not to rebate under any circumstances? A.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

—No, I do not; I have done so but they do it just the same anyway.

Q.—You say you have gone that far to say you must not rebate at all? A.—Yes, I have done it in many cases.

Q.—Why have you done that when you would do it yourself right over the counter? A.—It is only recently I have done this in the office.

Q.—Since when? A.—This last year or two, when we first started out we did not rebate, we made up our minds we would not rebate, but we were driven to it.

Q.—For how long did you adhere to your good resolution? A.—I cannot say offhand now, but personally I have given very few rebates myself, although I would do it.

Q.—How long did you adhere to the rule that rebates must not be given? A.—I cannot say definitely just when.

Q.—Did you adhere to it for two years? A.—Yes, I think we did, longer than that.

Q.—Why did you change? A.—Because we were losing business by not giving rebates.

Q.—But for a young company you were getting all the business it was healthy for you to carry, were you not? A.—I suppose we were.

Q.—Was not that the fact, was not there a resolution in your minute book at one time that business was not to be urged, that it was coming in as fast as you thought judicious and wise? A.—Yes.

Q.—With business coming into a new company at fast as it wants to take care of it why cannot that company start and maintain a system of not giving rebates? A.—It is a pretty hard thing to do.

Q.—It is not hard if you are getting all the business you want? A.—It is a question whether you would get all the business if you did not rebate in some cases.

Q.—You were up to the time you started to rebate, up to the time you changed you were getting all the business? A.—We were the first year, but we could not handle very much business the first year or two, we could not digest it.

Q.—Have you not been getting business since then as fast as you want it? A.—Not as fast as we would like it.

Q.—Since when has that change taken place? A.—Since the end of 1904; we have not been writing so much business as we would like to have written.

Q.—Since 1904 you have not been getting your applications too fast for a young company? A.—No.

Q.—Did you refuse to rebate up to the end of 1904? A.—No, I do not think so.

Q.—You were rebating before then? A.—Yes.

Q.—All during 1904 you were rebating? A.—Yes, I think so.

Q.—And all during 1903? A.—I would not be sure of that.

Q.—Can you tell me from your books—your books will show the rebates you have given? A.—No, they do not show the rebates, they only show the agents' commissions.

Q.—If you have an application coming into the office from an agent that you are making advances to—I suppose that often occurs? A.—Yes.

Q.—And ordinarily you would credit to his advances the amount of his commission? A.—Yes.

Q.—In order to give a rebate he must say to you, "I have given a rebate to this applicant for insurance, and you must give me that in cash" —that happens? A.—Not necessarily He sends a voucher for his commission or a part of his commission and I do not know what he does with his commission whether he keeps it or hands it to the insured.

Q.—You do not know, but you have a pretty good idea? A.—Yes.

Q.—That he is giving a rebate A.—Yes.

Q.—And you know from the locality where the man is carrying on his business and the way he carries it on whether he is giving a rebate to some person or not? A.—Yes.

MR. LANGMUIR: But it is not shown in the books? A.—No, it is not shown in the books as a rebate.

Q.—If he sends you a receipt for his commission you do not inquire whether he has paid out of it a rebate? A.—No, I do not.

MR. TILLEY: I think probably you do not quite understand the question that I asked the witness; what I asked him was when they make advances to their agents ahead of time then the agent sends in and says "I have given a rebate"—he must do that if he wants to get the cash otherwise it would be just credited to his account.

MR. LANGMUIR: Then he is handing in vouchers for the advance?

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

MR. TILLEY: Yes. Mr. Wood says the voucher that comes in is just something he has paid out, and he does not know whether it is paid out to a sub-agent or a rebate, but he has a pretty good idea.

MR. LANGMUIR: As a matter of fact have you ever refused to write insurance because of a rebate being asked? A.—Yes, many times I have.

Q.—You have absolutely refused to take a policy because the rebate was asked? A.—Yes, and good business too; I have refused it, very foolishly.

MR. TILLEY: Why? A.—Because they go away to some other office and get the business we ought to get.

Q.— It strikes me— A.—It is a serious matter.

Q.—It strikes me the young companies that have been starting, most of them have been getting business as fast as they can take care of it? A.—Yes, they have, in fact too much so.

Q.—Probably there would be some advantage to the young companies if they were not taking business quite so rapidly? A.—Yes.

Q.—Are not those the companies that can afford to say, "We will not rebate," the very fact that it would get its full premium in some cases would be of immense advantage to that young company, preventing impairment and so on? A.—The public do not look at it in that way.

Q.—Are not the insurance companies getting too anxious to satisfy the public and their friends? A.—Yes, they are, they have to.

Q.—And they do not stand up and say, "Our goods are worth so much, and we want that price, or we will not sell the goods,"—they do not do that sort of thing? A.—No.

Q.—Probably because, to some extent, as was mentioned here yesterday I think, that the agents are for the most part insuring their friends and relatives? A.—Yes.

Q.—Persons who seem to think they have some call on them for some concession, is there anything in that? A.—I think so.

Q.—You are free to admit, I suppose, that there is nothing to prevent a young company doing away with rebates if it wants to? A.—They could do away with it, I think, if they would not ——

Q.—And still get all the business they can take care of properly? A.—They would not write nearly as much business, but they would get as much as they could digest properly.

Q.—Are not the young companies the ones that rebate the most? A.—Not by any means, no; they are the least sinners.

Q.—You think it is the larger companies? A.—Yes, by all means.

Q.—You think the older the company gets the more it rebates? A.—Yes.

Q.—Can you form any idea of the percentage of an agent's commissions that he gives away in rebates? A.—A man, I think, working on a 65 per cent. commission would give away to his agent or in the matter of rebates between 40 and 50 per cent.

Q.—That is, you would estimate it would be about one-half of his commissions he would give away in rebates? A.—More than half; he would give 40 per cent. out of his 65 per cent.

Q.—Not 40 per cent. of 65? A.—No, I mean 40 per cent. of the premium.

Q.—Up to 50 per cent. of the premium? A.—Yes.

Q.—So that he would have for himself merely 15 or 20 per cent.? A.—15 or 20 per cent., according to the local agents. The local agent's commission generally runs about 40 per cent. graded, and the general agent has to get nearly all his business through the local agent.

Q.—You think that probably an agent would give away as much as 75 per cent. of his commission? A.—Yes.

Q.—And only get the benefit of one-quarter? A.—That is correct.

Q.—Of course, the insured to a great extent get the benefit of that? A.—In some cases.

Q.—By way of rebate? A.—Yes.

Q.—They do not pay so much for the insurance? A.—When I am speaking of about 40 per cent. I am speaking about local agents as well.

Q.—But, supposing there is no local agent at all, does not the man that is getting his insurance have to pay just about as much as if he had a regular local agent? A.—Yes.

Q.—He has to pay it to his friends and to the insured, and so on? A.—Yes.

Q.—And it is as broad as it is long, whether he is acting through the regularly constituted agent, or whether he is getting it indifferently from his friends? A.—Yes.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—That to some extent finds its way back into the pocket of the insured? A.—Yes, a certain part of it does.

Q.—But it is very unequal between the different insurers? A.—It is not fair to the insurers.

Q.—They are not treated alike? A.—They are not, by any means.

Q.—Some know of the rebates and some do not know? A.—Some are wise and some are unwise, and if they do not ask for it they do not get it.

MR. KENT: You mean, some are ignorant and some are not? A.—Yes.

Q.—A man may be wise and not know anything about insurance rebates? A.—That is a better phrase.

MR. TILLEY: You have not done anything except what you have told us about rebates; you have not laid down any general rule, or found fault with any agent or dismissed any agent, because he rebates? A.—Yes, I have; I have found fault with agents for rebating and I have dismissed them for rebating.

Q.—How long ago did you dismiss an agent for rebating ? A.—I had an agent in St. John that I finally laid off because he rebated so much, he was a salaried man.

Q.—The rebates there came out of the company A.—Yes.

Q.—Have you ever laid off a man where he rebated out of his own pocket? A.—No.

Q.—You would not consider that was good business? A.—No.

Q.—So long as he gives out his own money you do not object? A.—No.

Q.—But salaried men with you must show their rebates? A.—Yes.

Q.—And in some cases the rebates have got so high that you have had to dispense with the agent? A.—Yes.

Q.—Have you ever given the whole first premium off as a rebate? A.—No.

Q.—Have any of your agents do you know? A.—No, it never has been done with our company.

Q.—What is the highest your company has ever allowed by way of rebate? A.—I think the highest would be sixty-five per cent.: I do not know that we have ever allowed that, but that would be the highest.

Q.—Will you tell me just how the amalgamation of the two companies was brought about? A.—It was reported in the papers that they were about to amalgamate with the Northern Life, that is the Farmers and Traders were about to amalgamate with the Northern Life. I was in St. Thomas one day and asked Mr. Galbraith about it, and he said, No, there was nothing in it. I went from there to Chatham, and I saw Mr. Matthew Wilson, who is a director of the Northern Life, and in speaking to him about another matter he happened to mention that his company were about to take over the Farmers and Traders; so I immediately went on my way back to St. Thomas and saw some of the other directors of the Farmers and Traders Life. I saw Mr. McCrimmon, who was then a director of the Farmers and Traders Life, and Mr. A. P. Campbell, who was then a personal friend of my own, and he told me they were talking of amalgamating with the Northern Life, and he told me the price they were about to get for the business. So I went back to the office and I told Mr. Galbraith what I had learned, and he finally acknowledged there was something in it; that was the commencement of the negotiations.

Q.—Do you remember what date that was? A.—No, I could not remember I have not the slightest idea, I do not remember the month even.

Q.—It was in the year 1900 I suppose? A.—Yes, I presume it would be in the fall of the year.

Q.—The minutes of the Farmers and Traders Co. show that on November 9th, 1900 "a Committee of Messrs. Still, Wallace, John Campbell, and M. A. Gilbert be appointed to report on the affairs of the company, and recommend what is best for the company to do and to get offers for the business if desirable;" do you know why they were anxious to dispose of the business at that time? A.—They had a twofold reason I think; they had some trouble with the directors, there was some little family trouble, and they had not sufficient money to carry it on.

Q.—There was the old story, impairment of capital? A.—Yes.

Q.—Was the Continental Life experiencing the same trouble at that time? A.—Yes, we had an impairment.

Q.—And I think this transaction that took place with the Farmers & Traders was not the first one that was discussed by the Continental? A.—What do you mean?

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—In the way of amalgamation or taking over of other business—the transaction with the Farmers & Traders was not the first one that the Continental discussed? A.—I do not remember any other.

Q.—Did not it have some dealings with the Merchants? A.—Yes.

Q.—And that fell through? A.—Yes.

Q.—Although both companies were looking about at that time to improve their position? A.—Yes.

Q.—Then on November 30th, 1900 a report was presented by the Committee and is set out at page 70 of the Farmers & Traders Minute book. It reads as follows: (A memorandum of all the minutes read in this connection, afterwards filed as Exhibit No. 262.) Then an agreement is set out (reads agreement, part of Exhibit 262.) Now that seems to indicate that the negotiation had proceeded quite a distance with the Northern Life Assurance Company? A.—It was almost closed.

Q.—Had you or your company been getting options on the Farmers & Traders stock? A.—No.

Q.—It speaks of some person procuring options on the stock. A.—Yes, that was another company altogether.

Q.—That was not being done by the Continental ? A.—No.

Q.—When you came to close your transaction did you find any persons were tied up with those options outstanding. A.—Yes, quite a large number.

Q.—What price had they agreed to take? A.—At par, I think.

Q.—None of them less than par? A.—I think some less than that. I don't remember actually, but I think some were less than that.

Q.—How did you get around that difficulty? A.—I think that they went back on their agreement.

Q.—Who did? A.—These people.

Q.—Who had the options? A.—Yes.

Q.—Then do you say that the options on the stock lapsed? A.—Yes. Never exercised.

Q.—Did you or the Continental get that stock at the price of the option? A.—No, we did not get any at the price of the option. We paid 115 for it.

Q.—Did none of the stock come into your hands, or the hands of any of the directors of the Continental at less than 115? A.—None whatever, not a share.

Q.—Was any stock purchased before knowing that the amalgamation was likely to go through? A.—Not by any of our people, no.

Q.—By any of the Farmers & Traders people? A.—Not that I am aware of I never heard of any.

Q.—There was no stock purchased by Mr. Wallace in accordance with his expression of willingness to buy? A.—Not to my knowledge.

Q.—Did the persons who were getting the option on the Farmers & Traders stock get 51 per cent. of it? A.—I don't think so.

Q.—Under option? A.—I don't think so.

Q.—That was why it fell through? A.—I think so.

Q.—If they could have got the 51 per cent. it would have gone through. Did you take any steps to prevent them getting the option on 51 per cent.? A.—No, I didn't come on the scene until the thing had almost been closed by the Northern Life. It was then I heard of it, but I didn't do anything in the matter.

Q.—The next resolution is on December 12th, 1900, at page 81 of the Minute Book. (Exhibit 262.) Apparently you came on the scene between those two dates? A.—Yes.

Q.—Did you embody your offer in any formal proposition? A.—I think my first offer was a verbal one, and then we subsequently made them a formal proposition, 115 cents for each $100 worth of stock.

Q.—That is to give 115 either in stock or cash? A.—In cash, yes.

Q.—To the shareholders? A.—Yes.

Q.—Then on page 84 there is a resolution (Exhibit 262.) Reads, Well, then you make the offer to $1.15 and subsequently a formal agreement was executed between the two companies dated the 2nd January, 1901? A.—Yes.

Q.—Now that agreement was ratified by an Act of the Ontario Legislature was it not? A.—Yes.

Q.—And is in the Schedule to the Act? A.—Yes.

Q.—The Act being assented to on the 15th April, 1901. Was any other agreement signed prior to this one of 2nd January, 1901? A.—I don't think so.

Q.—Between individuals or between the companies? A.—I don't think so.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—Are you sure of that? A.—Well, so far as my memory serves me, I am sure, yes. That was the only agreement we had.

Q.—You became managing director of the Farmers & Traders in 1900? A.—Yes.

Q.—There must have been some arrangement then concluded before the agreement of 2nd January? A.—Yes, I might say that there were two of our directors who bought the whole of the stock of the Farmers & Traders after the first agreement had been made.

Q.—Where is the first agreement, was it not embodied in any formal document?

MR. FULLER: I do not think so. It would be probably that one that was set out in the Minute Book of the Farmers & Traders.

MR. TILLEY: The Minute does not set it out in detail, it simply says it was to be put in writing? A.—I think there was an offer in writing and I think that was held by Mr. Still, the President of the Farmers & Traders. We will see if we can find a copy.

Q.—Apparently in the minutes of your company on December 6th, 1900, page 92, the first reference to this amalgamation appears. Mr. Woods' letter re the Farmers & Traders Accident Insurance Company's business was laid before the Committee. It was moved and seconded that the Manager be authorized to continue negotiations. (Reads to "securities for investment all right." Part of Exhibit 262.) That is the first, and then on page 95 this item appears:—"Under date of December 17th, 1900, the Medical Director, General Manager and Solicitor reported that they had been to St. Thomas and investigated the risks and assets of the Farmers & Traders" (reads to) "accepting the offer." (Ex. 262.) Then on December 21st:—"the General Manager, Mr. Woods, reported that he had gone to St. Thomas" (reads to "carried out the transaction with the Farmers & Traders Life." Part of Ex. 262.) Do you remember how that difficulty was met? A.—Yes, I don't think we ever saw the Ontario Bank. Two of our directors came to our rescue and put the money up.

Q.—The two of your directors being? A.—Mr. Henry Cargill and Henry Scott of Listowel. They put up sufficient money to buy the whole of the stock of the Farmers & Traders.

Q.—To whom did they give the money? A.—They gave it to the Farmers & Traders but I think it was made payable to the Atlas Loan in trust for the Farmers & Traders shareholders.

Q.—So it was carried out in the way proposed by the Farmers & Traders? A.—Yes.

Q.—That is to say that a certain sum of money should be deposited to the credit of the Atlas Loan Company as trustees? A.—Yes.

Q.—Do you know what sum of money was deposited? A.—There was sufficient money to pay 115 for the capital stock.

Q.—Every share of the capital? A.—Every share of it.

Q.—Was the Continental Life a party to the raising of that money? A.—No.

Q.—It was done entirely by whom? A.—By these two individuals, Mr. Henry Cargill and Mr. Scott.

Q.—Then the money having been deposited with the Atlas Loan Company you took possession? A.—Yes.

Q.—On the 28th December, at page 98:—"In the matter of the Farmers & Traders Life & Accident Insurance Company's business Mr. Coatsworth reported" (reads to) "had been unusually well selected" (part of Ex. 262.)

Q.—That has turned out to be so, that the risks were unusually well selected? A.—Yes.

Q.—Their death rate has been exceptionally favourable? A.—Very low indeed.

Q.—From the time you took it over? A.—Yes.

Q.—Then on page 99:—"It was moved by Dr. Mckay and seconded by Mr. Vandusen" (reads to) "received from them the said business and assets. Carried unanimously." (Ex. 262.) So that these two gentlemen were constituted the trustees of the company to acquire the assets? A.—Yes.

Q.—Then you are getting that agreement, are you? A.—Yes, Mr. Fuller has gone for it.

Q.—What was done with the money deposited in the Atlas Loan Company? A.—It was paid out to the shareholders as they transferred their stock.

45th day, June 22, 1906.

Q.—Who did they transfer their stock to? A.—To Mr. Henry Cargill and Mr. Scott.

Q.—How many of them transferred, do you know? A.—Speaking from memory it would be 75 or 80 per cent. In fact there was more than that; I suppose there would be 90 per cent. of them transferred their stock.

Q.—90 per cent. of the shareholders in the old Farmers & Traders took the cash? A.—Yes.

Q.—And the money deposited in the Atlas Loan Company was used to pay them the cash? A.—Yes.

Q.—And they transferred their stock then to Messrs. Cargill and Scott? A.—Yes.

Q.—Then what was done with the balance of the shareholders? A.—We finally paid them the cash after a short time. A few of them took our stock, but only a very few.

Q.—Sufficient to amount to anything? A.—No, I suppose we would not get more than 20 shareholders out of the Farmers & Traders. We could tell you exactly.

Q.—A very small number, a very small amount? A.—Yes, only a very few.

Q.—I suppose Mr. Wallace would be one of those? A.—Mr. Wallace was one of them.

Q.—And afterwards did any take a prominent part in the Continental? A.—I think he was the only one of the Farmers & Traders who was on the Board who took stock.

Q.—Did the agreement with Mr. Scott and Mr. Cargill contain anything except what you have told us? A.—No.

Q.—That they were to advance the money and the Continental was to protect them against any loss and take it off their hands? A.—Yes.

Q.—And the Continental subsequently did so? A.—Yes.

Q.—Did it pay out any more than Mr. Scott and Mr. Cargill paid? A.—No.

Q.—Was there any profit in it to either of those gentlemen? A.—Only the interest on their money, which was at, I think, 4 or 5 per cent. I forget which. Very small.

Q.—Have you any statement that you could give us that would show that? A.—I can get the exact figures.

Q.—This offer of 13th December, 1900, reads this way: (Reads Exhibit 257). That was the basis of the proposition? A.—Yes.

Q.—The reserve was about $37,-

Continental Life,
(G. B. Woods, Ex'd.)

000 having been computed on a 4½ per cent. basis up to 1899? A.—Yes.

Q.—And from that on 3½? A.—No, it is 4½ yet.

Q.—I mean business written after that date, 3½? A.—Yes.

Q.—And you have continued have you, the old business at 4½ still? A.—Yes.

MR. FULLER: All that reserve was at 4½.

MR. TILLEY: I gathered that from the report of the company, but it does not say so in this: "calculated on a 4½ per cent. basis on all business written up to 31st December, 1899, and on a 3½ per cent. basis on all business written since that date." The last report that was put in shows that it was on a 4½ per cent. basis, but that would only carry it up to the end of 1899 any way. So that for the year during which there was no report of that company printed separately, apparently they were valuing it on a 3½ per cent. basis. Did you find that computation of reserve correct? A.—There was a very slight error but it did not amount to anything. Mr. Fuller, our actuary, found a very slight error.

Q.—The difference was not very great, but Mr. Fuller says apparently the whole of their reserve was calculated on a 4½ per cent. basis to bring it to the figure they have mentioned in the agreement? A.—Yes.

Q.—Then were these securities transferred? A.—Yes.

Q.—Did you have any loss on them? A.—No.

Q.—Apparently their securities consisted almost entirely of Atlas Loan Company debentures? A.—Yes.

Q.—And the Atlas Loan Company were their bankers too? A.—Yes.

Q.—So that it was a company that was very much interested in the Atlas Loan Company? A.—Yes.

Q.—Was the Continental prior to that time interested in the Atlas Loan Company at all? A.—No, not at all. We didn't know them.

Q.—But you got acquainted then? A.—Yes.

Q.—And the acquaintance ripened into friendship? A.—Yes.

Q.—You commenced doing business with the Atlas Loan Company? A.—Yes.

Q.—Your debentures did not turn out quite so happily as the deben-

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

tures you took over from the Farmers & Traders? A.—No.

Q.—We will come to that phase of it later. I will put in that document, the offer made by the Continental to the Farmers & Traders. (Exhibit 257.) Now the Farmers & Traders at the time had a paid up capital stock of $31,878.58? A.—Yes, I believe so.

Q.—Had the Farmers & Traders shareholders paid any bonus on their stock? A.—No, it was at par.

Q.—They had received no dividends on their capital stock? A.—No.

Q.—So that while they were getting back the full amount they had paid in by giving par, they were getting nothing for their money as long as it had been in the company? A.—They got 15 per cent.

Q.—That 15 per cent. bonus covered that? A.—Yes.

Q.—It had been in the company about three years? A.—From 1897 to 1900, about three years.

Q.—About three years that the money would be with the company? A.—Yes, I think it had been in longer than that. I think the money was paid in a year before they started business. I think about four years they had had the money.

Q.—About four years during which they had been getting nothing? A.—Yes.

Q.—A great many of them were not shareholders at the commencement, no doubt? A.—Yes, I suppose some would not be.

Q.—Some would be out less than the three years' interest? A.—Yes.

Q.—So for the $31,878.58 they got in reality about $36,660 in cash? A.—Yes.

Q.—Assuming that they all took cash? A.—Yes.

Q.—The few that did not take cash got that in paid up stock of your company? A.—Yes.

Q.—Did they get it partly paid stock or paid up? A.—Partly paid stock.

Q.—Giving them $115 of paid up on each share, so to speak? A.—Yes.

Q.—How much insurance had the Farmers & Traders at that time? A.—$909,500 in all. That is the gross amount, but some of that was not good. We took over $909,500, but when it was sifted down there was between seven and eight hundred thousand dollars, $734,000 on December 31st, 1901.

Q.—You hand me a statement *re* Farmers & Traders which I will put in. (Read and filed as Exhibit 258.)

Q.—That was on the basis of $936,500? A.—Yes.

Q.—Well, then from December 31st, 1900, to December 31st, 1901, it had come down to $734,000? A.—Yes.

Q.—How had it come down to that figure? A.—There was some business that the policies had just been issued that the people never paid their notes, owing to the amalgamation, I presume. That $909,000 I suppose, included everything they could put in, which would always stand some weeding out.

Q.—What would you say you got on the 31st December, 1900? A.—Something less than $800,000.

Q.—Your actuary says that on the 15th April, 1901, by that time you had done the weeding out and had brought it down about $100,000. A.—Yes.

Q.—So that he says it might be fairly put at $836,500. What is a fair amount to pay per 1,000 of insurance? A.—It has been costing us about 120 per cent., I think.

Q.—That is, it costs you 120 per cent. of the first premium, you mean? A.—Yes.

Q.—What is an average premium? per 1,000? A.—About $35. That is on the business at the present time; it would not be at that time. The rates are higher now.

Q.—Figuring it on the basis of $836,000, which is apparently still a very high figure by comparison with the amount at the end of the year 1901 when it was only $734,000, it figures out that you paid $29.34 per 1,000 of insurance. A.—Yes.

Q.—You say that in conducting your business you pay about 120 per cent.? A.—It costs us that to get the business, including all expenses.

Q.—That would make the amount per 1,000 about $36?

MR. FULLER: If you take it on that basis the average premium, was about $31 per 1,000. I know it was within a few cents of $31 per 1,000.

Q.—The average premium for a company is generally looked upon as $30? A.—It used to be. It is higher now. It is about $35 now. Our premiums, I think, average a little higher than that.

Q.—So that you were paying for this business about 100 per cent. of the first premium? A.—Yes, about 100 per cent.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—Is that what you estimated you were paying at the time? A.—Yes, that is what we estimated we were paying, about 100 per cent.

Q.—And it was costing you to get business in the ordinary way about 130 per cent.? A.—You must also understand this that in paying 100 per cent. for that we had the reserve with us. Now when we pay 100 per cent. we have to put up reserve in addition to that.

Q.—You were taking it over with the reserve? A.—With the reserve.

Q.—But in fixing that 100 per cent. you were deducting the reserve? A.—Yes.

Q.—In fixing this price you are deducting the reserve so, if you are going to treat it that way, your payments would be a good deal more if you were going to exclude the reserve, you are crediting the reserve on this price? A.—Yes.

Q.—You got the reserve supplied and you were paying about 100 per cent. of the first premium when the ordinary cost of your first year business would be about 120 per cent.? A.—And we don't get the reserve when we pay the 120 per cent., we have to put up the reserve in addition to that, which is, in many cases, 60 and 65 per cent. more.

Q.—After that was carried through in that way an Act was passed amalgamating the two companies? A.—Yes.

Q.—And that amalgamated the Continental Insurance Company and the Farmers and Traders Life Insurance and Accident Company. The Act confirms the agreement between you which is set out in the Schedule, except that Article 8 of the agreement which provided for a capital of 2 million dollars was amended by allowing a capital of $1,500,000 divided into 15,000 shares of $100 each. Then under Clause 4 the question came up, when you applied for Dominion License, whether you were a company authorized to do both life and accident business? A.—Yes.

Q.—You had not intended doing accident business? A.—No.

Q.—And you have not attempted to carry on any accident business? A.—No.

Q.—And your construction of the Charter is that you are not permitted to carry on an accident business, notwithstanding the general language of Section 4 which gives you all the rights of either of the companies? A.—Yes.

Q.—But the other language of the Act is sufficient to restrict you to a life insurance business? I think a contrary view was first taken by the Department of Justice at Ottawa, but afterwards, as a result of discussion with your solicitor, that view was modified and the license was granted to you after a good deal of correspondence and discussion. A.—Yes.

Q.—Then the Act provides for the rights of the policyholders in the new company and as to suits by or against the company. Now the agreement which was ratified and which sets out the position of the parties is made a Schedule to the Act. It is dated the 2nd January, 1901. *(A printed copy of the Act and Schedule filed as Exhibit 259.)*

Q.—Did you continue the old policies or did you get the old policies surrendered and get new policies? A.—We gave new policies, exactly the same as the old ones, word for word. Identically the same excepting that we changed the words "Farmers and Traders" to "Continental Life." We gave them a policy in the name of the new company with all the clauses of the old company, all the conditions.

Q.—Did any of the directors of the old Farmers & Traders become directors of your company at the time of amalgamation? A.—No, it was some time afterwards, I think, when Mr. Wallace came in. A short time.

Q.—Was Mr. Wallace the only one that came on your Board? A.—Yes

Q.—One of the chief things to be considered in taking over the company and the price to be paid for it would be the premiums of that company? A.—Yes.

Q.—Were they as high as yours? A.—Well, no, ours were on the 3½ per cent. basis and theirs on the 4½.

Q.—That would make considerable difference would it not? A.—Yes.

Q.—For instance I notice that their premiums for the whole life at age 25 was $17.90, but yours was $21.25? A.—Yes.

Q.—At age 35, $24.75 Traders and $27.90 Continental. At age 45 $35.90 Traders and $38.80 Continental. The same difference would run throughout? A.—Yes.

Q.—Did you consider that phase of it when you were discussing the terms? A.—Yes.

45th day, June 22, 1906.

Continental Life, (G. B. Woods, Ex'd.)

Q.—And what allowance would you make for the difference in premiums in estimating the value to be paid for each $1,000 of insurance? A.—Their rates were sufficiently high on the $4\frac{1}{2}$ per cent. basis. Their surrender value only called for a $4\frac{1}{2}$ per cent. reserve at the end of the term.

Q.—The Government was requiring a $3\frac{1}{2}$ per cent. reserve? A.—On new business only.

Q.—And on old business at a certain time? A.—Yes.

Q.—Did you consider that price from the standpoint of the value of the business, having regard to the premiums or was it just a matter of giving $5 per share better than the Northern? A.—No, we went into the thing very thoroughly and had our actuary figure it out very thoroughly. It has proved to be good business and it has paid us well.

Q.—Was the fact not that you just had to bid a little more than the Northern? A.—Yes, we did bid more than the Northern.

Q.—And that was what fixed the price, I suppose? A.—Yes, it helped, of course. We got the business cheap enough, though, I think.

Q.—Now, you say you took over at that time some Atlas Loan Company debentures? A.—Yes, $25,000.

Q.—And have you supplied a statement showing all the Atlas Loan Company's debentures? Does this statement show all the Atlas Loan Company's debentures that your company has held at any time? A.—Yes, it shows them all.

Q.—This statement will be Exhibit 260.) April 15th, 1901, was at the date when you completed the transaction with the Farmers & Traders? A.—Yes, I presume it would be.

Q.—You took over at that time $25,000 of bonds of the Atlas Loan Company? A.—Yes.

Q.—Those matured in 1902, the last of them and they were paid? A.—They were paid.

Q.—By that time had Mr. Wallace, the Manager of the Atlas Loan Company, come on to your Board? A.—Yes.

Q.—Then when did you next invest in Atlas Loan Company debentures? A.—In June, 1901 we took two debentures for $1,300 in all; one for $1,000 and one for $300.

Q.—That is in 1901 you took one for $1,000 and another for $300, making a total of $1,300? A.—Yes.

Q.—Those were at what per cent.? A.—4 per cent.

Q.—From whom did you buy them? A.—From the Atlas Loan.

Q.—And you paid par for them? A.—Yes. We took that debenture in payment of an insurance premium, I might say.

Q.—Was that under an arrangement whereby you placed insurance on Mr. Wallace? A.—No, on Mr. Murch.

Q.—There was an agreement with Mr. Murch about that? A.—Yes.

Q.—Have you the agreement here? A.—It was attached to the application for insurance. We will get that.

Q.—We can deal with that later. What is the next one? A.—May 20th, 1902, the same amount.

Q.—That would be a year later? A.—Yes.

Q.—Another premium on the same policy? A.—Yes. And August 5th, 1902, we took $10,000 worth. On September 4th of the same year we took $5,000 worth. On September 19th of the same year we took another $5,000. And on October 11th same year another $5,000, making a total of $25,000 in all.

Q.—In the months of August, September and October? A.—Yes.

Q.—And those debentures bore what rate? A.—They bore $4\frac{1}{2}$ per cent.

Q.—Who did you buy them from? A.—The Atlas Loan.

Q.—Direct from the company? A.—Yes.

Q.—Mr. Wallace was then your director? A.—Yes.

Q.—And the transaction would be negotiated through Mr. Wallace, I suppose? A.—Yes.

Q.—Was that transaction brought about by his application to you or by your application to him? A.—His application to us.

Q.—What application did he make to you? A.—There was a kind of verbal understanding when we took the others up that we would buy some more later on.

Q.—When you took what others up? A.—I mean when he took the $25,000 up.

Q.—When did he take the $25,000 up? A.—At the beginning of 1902.

Q.—Then Mr. Wallace took up the $25,000 that you took over from the Farmers & Traders and at the time that he paid them off you rather promised him to take $25,000 more later? A.—Yes.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—Did he take them up to oblige you? A.—Yes, we needed the money.

Q.—Were they due? A.—Yes.

Q.—Were they over due? A.—No.

Q.—They had just matured? A.—Yes.

Q.—What did you want the money for? A.—We were making a deposit at Ottawa and needed all the money we could get to buy other debentures.

Q.—And you bought other debentures to meet your deposit at Ottawa? A.—Yes, they would not take the Atlas Loan bonds at Ottawa.

Q.—I thought they were deposited for a time? A.—Here in Ontario.

Q.—When you transferred from the Provincial to the Dominion they would not take the same security that you had in the Province? A.—We did not ask them to. We knew they would not so we did not ask them to.

Q.—Why did you know they would not? A.—The Act.

Q.—The Act required a different security from that? A.—Yes.

Q.—What security did you give them? A.—We gave them all municipal debentures.

Q.—You say that you promised Mr. Wallace then that as soon as you could you would buy back $25,000 of debentures. Was there any arrangement at the time of the amalgamation of the two companies that you should carry $25,000 of Atlas Loan debentures? A.—No.

Q.—Was there any discussion about that security at all? A.—No.

Q.—You were as free to dispose of that and demand payment of it at maturity as any other security you held? A.—Yes.

Q.—Why did you make a promise to him? A.—I think he asked me before they came due if we would renew them and I told him we would not but we might buy more at a later stage, but at that particular time we needed the money for these other investments.

Q.—At the time they were paid off he was your director then? A.—Yes.

Q.—What was the next lot of Atlas Loan securities you got? A.—In the following May we took $1,300. May 16th, 1903.

Q.—That was another premium? A.—Yes. That was the total amount.

Q.—What loans did you make to the Atlas Loan Company? A.—We made a loan, or rather not a loan, it was a deposit. We didn't make any loan besides that.

Q.—You had other financial dealings with the Atlas Loan Company? A.—Yes, we had a deposit there of $5,000.

Q.—When did you have that deposit? A.—In 1901 and 1902. It was not all put in at the same time, it was put in at different times.

Q.—Have you got a statement of the account here? A.—Yes.

Q.—The statement shows that in 1901, April 5th, the first entry is "to capital stock $230.13." What does that mean?

MR. FULLER: That is at the time of the amalgamation. This is a copy of the account in our ledger; making the opening entry of the new company, the entry is made in that form. A.—That was the balance of the money left from the capital stock account that we had had deposited with the Atlas Loan.

Q.—The balance of the trust money you had had deposited with the Atlas Loan? A.—Yes.

Q.—Then on June 13th is the next item. What do these amounts represent? A.—I think they were some premiums paid in to Mr. Wallace's office there. He collected them for us and credited them to our account.

Q.—Would that apply to the item of $4,621.78? A.—No, that was a deposit by us.

Q.—Why? A.—To make it up to the even $5,000, I think.

Q.—On June 6th, 1902, you made a deposit of $4,621.78, which brought it up to the even $5,000. Why did you want to bring it up to the even $5,000? A.—I think we got a special rate of interest.

Q.—What rate did you get? A.—Four per cent.

Q.—Was that the object of doing it? A.—Yes.

Q.—To get 4 per cent.? A.—Yes.

Q.—Was it done at Mr. Wallace's request? A.—I think it was. Yes.

Q.—He wanted the company to deposit $5,000 and the company deposited it and do you say you did get 4 per cent. on it? A.—Yes.

Q.—I won't ask you if you got it; you were promised it? A.—Yes.

Q.—Then on the other side of the account, December 22nd, 1904, there is $1,041.35, by cash. The balance shown is $3,190.26. That means that according to this account there was a balance of $5,116.75 standing to your credit from December 31st, 1902, down to December 31st, 1904, in the Atlas Loan Company's books? A.—That is correct.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—Without any security? A.—Yes.

Q.—And then on December 22nd, 1904, what is this item "by cash $1,041?" Was that paid to you in cash? A.—That is a dividend from the Atlas Loan Company.

Q.—In the meantime the Atlas Loan Company had failed? A.—Yes.

Q.—Do you remember when it failed? A.—I do not, off-hand, no.

Q.—It was the end of May or beginning of June '03, was it not? A.—Some time in 1903, yes.

Q.—Then May 20th, 1905, is that another dividend? A.—Yes.

Q.—And December 1st, 1905, is the third dividend? A.—Yes, we have had three dividends.

Q.—Amounting to how much? A.—37 per cent., I think.

Q.—Is that all that you expect to get from that source? A.—I understand there is another small dividend to come.

Q.—Not of any amount? A.—No.

Q.—That left a balance of $3,190.26, the loss on that deposit account with the Atlas Loan Company? A.—Yes.

Q.—And that was written off on the 31st December, 1905? A.—Yes.

Q.—Under instructions from Mr. Blackadar? A.—Yes.

Q.—You were carrying that forward still as an asset? A.—Until we got the final dividend.

Q.—You were carrying it forward as an asset at any rate? A.—Yes.

Q.—And under Mr. Blackadar's direction it was written off. Now had you any other deposit account with the Atlas Loan Company? A.—We had a deposit of $15,000 on which we had some bank stock as security. We had $17,000 of Metropolitan Bank stock.

Q.—Did that deposit account remain uniform at $15,000 all the time you held it? A.—Yes.

Q.—Are you sure about that? A.—Yes.

Q.—Is that shown here? A.—Yes, I think so. Here it is, $11,000 and $4,000. Two cheques of the same date, different banks, I presume.

Q.—So that in January, 1903, was when that account was commenced? A.—Yes.

Q.—And it commenced by you depositing with the Atlas Loan Company on an account headed "Special deposit account" $11,000 and on the same date another cheque of $4,000, probably cheques on different banks? A.—Yes. all deposited at the same time, $15,000.

Q.—Then interest was charged on that amount $821.30 up to the end of December, 1903? A.—Yes.

Q.—And then on December 31st of that year was it, 1903? A.—Yes.

Q.—The interest and cash were both repaid to you? A.—Yes.

Q.—And as against that account you had? A.—Metropolitan Bank stock.

Q.—Did you always have Metropolitan Bank stock from the date you made that deposit? A.—Yes.

Q.—Was it stipulated for at the time that you should have security? A.—Yes.

Q.—What was the amount of the security? A.—85 shares, $8,500 at par, that would be $17,000.

Q.—$17,000 at par and the premium? A.—Yes.

Q.—What rate of interest were you paid on this? A.—4½ per cent. We got a larger rate after the failure.

Q.—What rate before the failure? A.—4½.

Q.—And after the failure A.—We got 6 I think.

Q.—How did you come to get that change in the rate of interest? A.—Through an arrangement with Mr. Ames.

Q.—What connection had he with the account? A.—He guaranteed the loan.

Q.—At the time the deposit was made? A.—Yes.

Q.—Then apparently it was a deposit made with the Atlas Loan Company and guaranteed by Mr. Ames? A.—Yes, guaranteed by Mr. Ames.

Q.—Whose Metropolitan Bank stock was it you got? A.—Mr. Ames deposited the collateral with us.

Q.—And then after the failure of the Atlas Loan Company you got 6 per cent. on that? A.—Yes.

Q.—Were you in a position in January, 1903, that you were seeking investments? A.—Yes, I think so. We had the money on hand, of course.

Q.—At whose request did you put that transaction through? A.—It was Mr. Wallace's arrangement with the Board I presume.

Q.—Was it made with you? A.—It was not made with me personally. It was made with the Board.

Q.—And again the proposition coming from him? A.—Yes.

Q.—And he being on the Board? A.—Yes

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—Have you the Minute in the Board Meetings that authorized that? Have you made any other deposits with the Atlas Company? A.—No.

Q.—Or any other financial transactions with the Atlas Loan Company? A.—That is all.

Q.—In any shape or form with the Atlas Loan Company or Mr. Wallace? A.—No.

Q.—No accommodation through Mr. Wallace? A.—No.

Q.—Then that left you after this loan of $15,000 and the special deposit was paid off at the end of 1903 and the dividends received from the liquidator of the Atlas Loan Company and the balance of that item being written off as a loss at the end of 1905, that would leave you according to everything you have told me about it, with $25,000 debentures bought in August, September, October, 1902, and $3,900 of debentures received as premiums on the Murch policy? A.—Yes.

Q.—What became of those? A.—We sold those to Mr. Somers.

Q.—When did you sell them to Mr. Somers? A.—During the year 1903, after the failure of the Atlas Loan.

Q.—That made $28,900 and you have handed us a statement showing the Atlas Loan Company's account as presented to your directors meeting on June 5th, 1903? A.—Yes.

Q.—That was just a few days after the Atlas Loan Company failed? A.—Yes.

Q.—Your first meeting of directors after it failed? A.—Yes.

Q.—And that accounts showed interest charged up of $535.38, making in all $29,435.38, due on the debentures. It also shows $5,116.75 for principal and $89.98 for interest on the ordinary deposit account and it shows $15,000 and $320.96 interest, making $15,320.96 due on the special account? A.—Yes.

Q.—The only one we have not followed there is the item of $29,435.38 and that you say is covered by this agreement with Mr. Somers? A.—Yes.

Q.—Mr. Somers then being the Vice President of your Company? A.—No, it is since then he became Vice President. He was on the Board at that time. Just a director.

Q.—The agreement is dated the 12th day of August, 1903, and made between the Continental Life Insurance Company and Gabriel Thomas Somers of the village of Beeton. (Agreement read and filed as Ex. 201.) This is a true copy of the agreement, is it? A.—Yes.

Q.—By that agreement Mr. Somers purports to buy the bonds, and then the insurance company agrees to pay him anything he loses on them? A.—Exactly.

Q.—That is a good way to buy, isn't it? We will deal with that after we have finished this. Here is a Minute in the Executive Minutes of Friday, January 16th, 1903; "The Manager was authorized to deposit on call with the Atlas Loan Company, St. Thomas, any amount up to $20,000 as might be considered advisable with a transfer of Metropolitan Bank stock as collateral, such deposit to bear interest at 5½ per cent. or current call loan rates and to be equal to 175 per cent. of the par value of the stock." That is the resolution under which the deposit was made. The deposit was made the next day? A.—Yes.

Q.—Now, Mr. Woods, would you tell me just how that agreement came to be made with Mr. Somers? A.—It was made at my suggestion, I suggested the matter to the Board. We had all these bonds and the Atlas Loan had failed and I knew it would hurt our business in the field to have the public know that we had these bonds and I made that suggestion to the Board myself and after talking the matter over for some days they thought perhaps it would be a good idea to get rid of the bonds to Mr. Somers.

Q.—Then it was not intended to be a sale was it? A.—Well, we were also told at the time that there would not be any loss on the debentures. We were told so by Mr. Wallace that they were a first lien on all the assets of the company. We also got the advice of two law firms here and they told us the same thing.

Q.—Mr. Somers did not seem to believe either the lawyers or Mr. Wallace? A.—Well, no; we put in that clause to protect Mr. Somers; of course we wanted to protect him.

Q.—And it was because it was anticipated that he would require protection? A.—I thought myself that there would be a loss.

Q.—What did you think the loss would be? A.—I didn't think it would be as much as it has been.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—What has it been? A.—We have received, I think, 37 per cent. and I understand there is another small dividend to come.

Q.—That is on these debentures you have received the same dividend that you did on your deposit with the company? A.—Yes.

Q.—So that your debentures put you in no better position than if you had deposited the money with the company? A.—That is right.

Q.—That is the result of some discussion of the matter in the courts? A.—Yes.

Q.—It was decided that the debentures rank equally with the depositors? A.—Yes.

Q.—So that there was not much additional security in your debentures? A.—Did not appear to be any.

Q.—Did you have those debentures passed by any solicitors? A.—Yes, I think they were.

Q.—Or did you just take them as Mr. Wallace presented them to you? You doing a little financing for Mr. Wallace? A.—No, they were passed by our solicitors at the time we bought them.

Q.—At the time you brought the Traders business? A.—No, after we bought the second lot.

Q.—When you came to take the second lot do you say they were passed by solicitors? A.—Yes. At the time the Murch policy was talked over.

Q.—It was not at the time of this last $25,000? A.—I know the matter was gone into very thoroughly at the time the Murch policy was taken.

Q.—That is a little different transaction, an agreement whereby he was to give you debentures in the future, he being an officer of the company? A.—Yes.

Q.—That would be an entirely different matter, there would be a special reason why you would want that transaction considered. A.—Yes.

Q.—What is your regular practice when you are buying debentures? A.—We send them over to our solicitors.

Q.—Did you have this $25,000 lot of debentures sent to your solicitors? That would not be necessary in dealing with a director? A.—I don't think we had the debentures themselves gone over but I think he saw them in the office.

Q.—And passed them? A.—Yes, I think so.

Q.—It was not by reason of anythink special about your debentures that they were treated as deposits? A.—No.

Q.—All debentures were put in the same category in the courts? A.—Yes.

Q.—When you are dealing with Mr. Wallace, he being a director of your company, what precautions did you take? A.—We took the same precautions with him as we would with any other individual.

Q.—It seems to me that any precaution you took was merely with regard to the Murch policy? A.—I know the other bonds were looked at too.

Q.—You would get a written opinion if you submitted them to your solicitor?

MR. FULLER: No, the solicitor was on our Executive Committee at that time.

Q.—That is Mr. Coatsworth. But you would not bind a solicitor by his appearing on an executive committee meeting and ratifying a transaction? A.—No, well, I suppose as those bonds were exactly the same as the others.

Q.—I am not saying that any report would have been made unfavourable to them in any way, because it would be a nice point to consider about these debentures, but this was a transaction put through not because you were going out to buy Atlas Loan Company debentures but because your director wanted to get some money on Atlas Loan Company debentures. Isn't that right? A.—Yes.

Q.—Then one wonders to what extent you would let him conduct the transaction and take your money and give you debentures? A.—These bonds were exactly the same as those accepted by the Ontario Government.

Q.—I do not question that. I do not say that they were in any different category. Then you tell me it was you who thought a transaction should be put through with Mr. Somers? A.—Yes.

Q.—It was not intended that there should be an out and out sale of the bonds, was it? A.—Oh yes, the sale was a bona fide sale.

Q.—Nothing arranged except what is shown in the agreement? A.—Nothing whatever.

Q.—Are you sure the agreement

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

covers the whole transaction. A.—It does for anything I know.

Q.—Was there not an understanding as to your company depositing money so that the matter could be financed? A.—No, they were not.

Q.—Nothing of that kind at all? A.—No.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 p.m., June 22nd, 1906.

Examination of George B. Woods continued:

MR. TILLEY: You have handed me a copy of the agreement regarding the Murch policy; what position did Murch hold with regard to the Atlas Loan Company? A.—He was the President I believe of the company.

Q.—And for how much insurance was the policy written? A.—$25,000 on a 20 year endowment plan at age 47 I think.

Q.—It speaks in the agreement of the yearly premium being $1,347.50? A.—That is correct.

Q.—Is that computed according to your regular table? A.—Our regular rate.

Q.—There was no rebate or discount on that sum? A.—No.

Agreement filed as Exhibit 263.

Q.—It is dated 22nd May, 1901, and is between William Henry Murch of St. Thomas of the first part, the Atlas Loan Company of the second part, and the Continental Life Insurance Company of the third part. (Reads whole agreement.) Was the arrangement for that policy made with you? A.—No, it was made with the directors; I think Mr. Wallace first mentioned it to me, and then I took it up with the directors.

Q.—The proposal emanated from Mr. Wallace? A.—Yes.

Q.—Acting for Mr. Murch or for the Atlas Loan Company? A.—Acting for the Atlas Loan Company I think; I think Mr. Murch was only a subject for the insurance.

Q.—He was selected as the one to take the insurance? A.—Yes.

Q.—What was the plan as outlined to you by Mr. Wallace; what was the object to be served? A.—I don't know, I never did know what his object was in doing it; he thought it was a pretty good speculation for the Atlas Loan Company.

Q.—How did he disclose to you he thought it would result—you used the word speculation, I suppose that is the word he used? A.—He never gave me any inside information regarding the matter except he had talked the matter over with his directors and they thought it would be a good deal for them to put on this insurance.

Q.—Not because Mr. Murch was of any particular value to the Atlas Loan Company? A.—Yes, they considered he was of very great value at that particular time.

Q.—Why? A.—I do not know why.

Q.—You think then they thought there was reason to fear a money loss if anything happened to Mr. Murch, the President? A.—Yes.

Q.—That was not the object? A.—If it was not I do not know what the object was.

Q.—Pure speculation? A.—I do not see very much speculation on their part unless Mr. Murch died in the meantime; but Mr. Murch was a first-class risk in every respect, it was not any more speculation than the ordinary insurance risk.

Q.—What do you think of the proposition looking at it from the Continental standpoint? A.—I considered the matter very carefully and with those provisoes in the agreement I thought we were well protected and perfectly safe.

Q.—Would you have bought Atlas Loan Company debentures paying 4 per cent. at that time as an investment? A.—No, I do not think we would.

Q.—You think you would not have bought them at that time at 4 per cent.? A.—No.

Q.—Would you have bought them at 4½ per cent.? A.—Yes, we would.

Q.—Are you sure you would? A.—I think we would. I do not think that we would hesitate in buying at 4½ per cent., at that time they were looked upon as being gilt-edged securities.

Q.—That is May, 1901? A.—Yes.

Q.—That was the year after your agreement with the St. Thomas Insurance Company had gone through? A.—Yes.

Q.—You say then you think you would have bought them at 4½ per cent.? A.—I think we would.

Q.—You would not have bought them at 4 per cent.? A.—I don't think we would.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—You would not take these debentures as being the equal of the cash premium? A.—No, but we had not any cash commission to pay on the renewal premium on that policy, which was equal to 5 or 7½ per cent., which more than made up the one-half of one per cent. difference.

Q.—You paid no commission on this policy at all? A.—No.

Q.—Not to any person? A.—Not on the renewal; on the first year we paid a commission.

Q.—What commission did you pay? A.—Forty per cent.

Q.—To whom? A.—It was paid to Mr. Wallace.

Q.—Why was it paid to Mr. Wallace, was not this put through for his benefit rather than the insurance company's? A.—I do not think so, I think it was a mutual agreement, and he was as anxious to get the business as he was to give it on that plan.

Q.—Were you anxious to get this policy? A.—At that time I think we were, I am sure we were.

Q.—And you paid Mr. Wallace 40 per cent.; how did you arrive at the 40 per cent.? A.—I think he asked me what commission we could allow, and I think that was the amount settled on, 40 per cent.

Q.—He was then a director of the company? A.—Yes, he told me at the time however that that would be paid to the Atlas Loan, but whether it was or not I could not say. He was acting for the Atlas Loan.

Q.—That would be in the nature of a rebate to the Atlas Loan? A.—Yes, practically speaking.

Q.—The insurance was made for the Atlas Loan? A.—Yes.

Q.—And you understood that 40 per cent. would go back to the Atlas Loan? A.—Yes.

Q.—You paid that 40 per cent. in cash, by cheque? A.—Yes.

Q.—Was that the only payment out you made in respect to the policy? A.—Yes.

Q.—You never got any cash under this transaction at all? A.—Only $47 yearly, I think the premium is $1,347.50; we got the difference in cash each year.

Q.—And then at the end of the time you got dividends on the debentures you had carried? A.—Yes.

Q.—What became of the policy after the Atlas Loan failed? A.—It was surrendered at the failure of the Atlas Loan; the Atlas Loan estate took the cash surrender value.

Q.—How was it paid? A.—The debentures of the Atlas Loan.

Q.—Where does that appear with respect to these debentures we were speaking about this morning? A.—The surrender value went to Mr. Somers, he having bought the debentures at that time.

Q.—He bought these debentures along with the others? A.—Yes.

Q.—That is in effect the company surendered the policy to itself, its own benefit? A.—Yes.

Q.—The Atlas Loan liquidator never got any surrender value for this policy? A.—They reduced their liability of course to that extent, the amount of the surrender——

Q.—Did you give any consideration to the Atlas Loan on this policy after the Atlas Loan failed? A.—We gave it to Mr. Somers.

Q.—Mr. Somers who bought the debentures? A.—Yes.

Q.—But he did not hold the policy? A.—No, he had to give up a certain amount of the debentures to the Atlas Loan.

Q.—Did he? A.—Yes.

Q.—Did he give up some of the debentures to the Atlas Loan? A.—Yes.

Q.—How much?

Mr. Fuller answers the questions until a change is indicated.

A.—$1,299 was the surrender value of the policy.

Q.—How was the transaction completed when it came to the surrender value? A.—The Master in Chancery put it through and allowed that as an allowance on the debentures.

Q.—On the dividend that you got or Mr. Somers got on the debentures? A.—It reduced the amount of the claim on the debentures by that full amount $1,299.

Q.—And you got a dividend on the balance? A.—Yes.

Q.—Then the dividend was paid I suppose to the Continental Life?

Mr. Woods answers the questions until a change is indicated.

A.—Paid to Mr. Somers.

Q.—The transaction for release and so on was by an agreement between the liquidator and your company? A.—Yes.

Q.—Why was your company a party to it? A.—We had to arrange for the surrender value of the policy.

Q.—Is that the only transaction the company had with the liquidator

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

of the Atlas Loan, that is covered by agreement? A.—Yes.

Q.—That is the agreement that is referred to where Mr. Wood was acting for the company? A.—Yes.

MR. LANGMUIR: I suppose you knew that that loan never came within the requirements of the Trustee Investment Act? A.—I did not know.

Q.—Did you not look at the time when you were talking about taking debentures of that loan company? That is always a pretty fair estimate of the standing of a company. It did not come up to any of the requirements of the Trustee Investment Act, either with respect to the reserve, or what it would sell for in the market or anything else? A.—We were wrongfully informed; we made all inquiries.

Q.—Did your solicitor not examine to see whether it did in order to satisfy himself as to the character of these debentures? A.—He advised us we were allowed to take those as trustee.

MR. TILLEY: As I gather from Mr. Woods the quality of the debenture was not anything that was of great consideration at that time, because you were going to pay the policy in the very same sort of security, whatever it might be, that you were going to get your premiums in; if it was good for you it would be good for them? A.—We thought the bonds were all right or we would not have taken them under any consideration.

Q.—You thought Mr. Wallace wanted it done, he was a director, and you were going to pay him back on the policy in the very same sort of money he was giving you? A.—We thought if the Ontario Government would accept their bonds as security for the policyholders we could accept them.

Q.—Would you leave it to the Ontario Government to pass on your investments of what was a proper security? A.—We are governed by the Ontario Government to a great extent.

Q.—You would not have taken those debentures bearing that rate of interest on any understanding except the understanding that is shown in that document? A.—I don't think we would.

Q.—It was a species of rebate to get the business, was it not? A.—Yes.

MR. KENT: It is equivalent to taking a promissory note for your premium and renewing it as long as the man is living?

MR. TILLEY: And all the company gets is the interest on the promissory note from year to year? A.—We could sell the debentures—

Q.—But the debentures afforded you something which you could use in your assets to set out your reserve? A.—We could sell those debentures.

Q.—They were marketable at that time? A.—Yes.

Q.—At par? A.—At par, yes.

Q.—You think you could have sold them at par? A.—I think so.

Q.—Mr. Murch never wanted to continue the policy? A.—After the failure of the Atlas Loan?

Q.—Yes? A.—No.

Q.—Was there any negotiation about that at all? A.—I think he wrote in and asked how the policy stood, but there was no negotiation except that.

Q.—He would not continue it? A.—No.

Q.—You were speaking this morning about the transaction whereby the Continental Life when it found itself saddled with the Atlas Loan Company's debentures in 1903, professed to sell them to Mr. Somers, the purchase money, assuming them to have been bought by Mr. Somers, would have been how much money? A.—$29,435.38.

Q.—Did you receive a cheque for that? A.—Yes.

Q.—From whom? A.—From Mr. Somers.

Q.—Payable on what bank? A.—On the Traders' Bank I believe.

Q.—And what branch? A.—At Beeton.

Q.—What did you do with the cheque? A.—We deposited it.

Q.—In what bank? A.—I do not know, I forget at the present time.

Q.—Would you look it up please? A.—Yes; in the Traders' Bank at Beeton.

Q.—You deposited the cheque to the credit of your company in the Traders' Bank at Beeton? A.—I think so but I am not positive.

Q.—Mr. Somers' cheque was on that bank, and deposited in that bank? A.—I am not positive.

MR. FULLER: We cannot tell from the books exactly whether that cheque was deposited.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

MR. TILLEY: If that is the trouble, the money got to the Traders' Bank at Beeton.

WITNESS: Yes.

Q.—And it was understood it was to go there? A.—Yes.

Q.—And in addition to Mr. Somers' cheque was anything else deposited there—that was 1903? A.—I think the amount of Mr. Somers' cheque was $29,400, and some odd, and we deposited $30,000 in the Traders'.

Q.—At the village of Beeton? A.—Yes.

Q.—Had you ever done business with the Traders' before that, either in Toronto or Beeton? A.—No, that was the first time.

Q.—Your bank at that time was what? A.—The Ontario Bank and the Dominion Bank, and I think we had the Bank of Nova Scotia at that time.

Q.—So that you were well equipped with banking facilities to lodge that cheque? A.—Yes.

Q.—What rate were you allowed at Beeton? A.—We were allawed 3 per cent.

Q.—What rate were you allowed at Toronto? A.—Allowed 3 per cent.

Q.—Why did you send it to Beeton? A.—We did it to oblige Mr. Somers; he had some arrangement with the bank there.

Q.—Do you know what the arrangement was? A.—No, I do not. This arrangement was not made till after the deal was put through, and he asked me if we had any objection to making a deposit there of that amount, and I said no.

Q.—That arrangement was not made until after the deal got through, the transaction as to keeping it in Beeton? A.—Yes.

Q.—When you agreed to sell these securities to Mr. Somers was not it understood you were to deposit that cheque? A.—No, it was not understood anything about any bank.

Q.—It was going to be done with some friendly bank? A.—I suppose so; Mr. Somers was arranging the whole matter himself.

Q.—We will be able to get Mr. Somers' account of it if we cannot get all the facts from you? A.—I will give you all the facts I can.

Q.—What was the arrangement made about banking so far as the Continental was a party to it? A.—I think in order to buy the debentures he had borrowed some money from the Traders' Bank.

Q.—That seems to be simple enough, what was the arrangement with the Continental? A.—There was not any arrangement with it.

Q.—Why did you leave the money there? A.—Just to oblige Mr. Somers and the bank.

Q.—That is to say the bank was to advance the money, but did not advance it, was not that it? A.—I think they did advance it to Mr. Somers.

Q.—They credited it to your account at Beeton, that is practically all that meant; they gave you a credit there? A.—Not exactly that way.

Q.—What more did they do than that? A.—Mr. Somers gave us his cheque, and I presume he borrowed the money from the Bank there at Beeton; we did not borrow the money.

Q.—No, no, that would not be consistent with the plan that you should borrow the money there; but the securities were sold to Mr. Somers, he had to then put into the coffers of the company $29,000 odd? A.—Yes.

Q.—And the company was to get and show as an asset $29,000 of cash? A.—Yes.

Q.—That is what it must do when it sold the security? A.—Yes.

Q.—In order to do that Mr. Somers makes an arrangement with the Traders' Bank in Beeton? A.—Yes.

Q.—Not the bankers of the insurance company; then he issues a cheque on that bank, which is deposited in the same bank to your credit; that simply means the bank put to your credit in their branch at Beeton $29,000 pursuant to an arrangement with Mr. Somers? A.—Yes.

Q.—And you supplemented that with a cheque of $800 to make it an even $30,000? A.—$500.

Q.—$800? A.—It was $29,400 and some odd dollars.

Q.—The amount is $564.62? A.—I think Mr. Somers made an arrangement with the bank there that we would keep sufficient money to cover the note, and the amount was $29,400 odd dollars, and we put in $30,000.

Q.—Was it just to make the figures so that they would not be exactly the same? A.—It did not strike us that way.

Q.—Was that the object of it? A.—No.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—Why put in a dollar more than just the amount of the purchase money? A.—I don't know.

Q.—You cannot explain that ? A.—No.

Q.—You do know the transaction was that you were to keep enough there to cover the amount; in other words, in ordinary English you were not to draw the money out? A.—We had that privilege if we wanted to.

Q.—How could you keep it there and draw it out at the same time? A.—They had sufficient security without that.

Q.—I am asking you that question; you say Mr. Somers arranged you should keep the amount there? A.—He arranged with the bank but we did not make any arrangements.

Q.—No; but Mr. Somers told you to do it, and that would be the end of that; he was putting through this transaction for the Continental, and it was not for you to dictate to him what arrangement would be made, what the company would do with the money? A.—We would have got it from any other bank the same way.

Q.—You could not have sold these debentures to any person else than Mr. Somers? A.—No.

Q.—And it was not for you to say you would not carry out the arrangement he had made? A.—No.

Q.—If Mr. Somers told you the understanding was you were not to draw out that money you would not draw it out? A.—That was not part of our arrangement; that was part of his arrangement but not ours.

Q.—And a part of his arrangement that he communicated to you, was it not? A.—Not till afterwards.

Q.—No matter when he did, he communicated it to you? A.—Yes.

Q.—And you did not tell him you would not do it? A.—No.

Q.—And in fact you did do it? A.—Yes.

Q.—So that it was understood whether before or after that in consideration of his lending his name in this way that you were going to carry out the arrangement that he had made—that was understood.

Q.—So that the arrangement was the money would be passed to your credit there, and you would not draw it out—that is the whole transaction? A.—No, it was not definitely arranged we were not to draw the money out.

Q.—It was arranged you were to keep it there; do you draw a distinction between those two? A.—No, I do not draw any distinction.

Q.—I think possibly we understand that stage of the transaction sufficiently; then you say they had plenty of security; what other securities were there? A.—They had the names of Henry Cargill, Mr. Scott, and one or two of the other directors.

Q.—Give us all the names? A.—Mr. Scott, Mr. Cargill, Mr. Van Dusen, Mr. Coatsworth, Mr. Somers and the late Dr. Gillies and myself; I think that is all, there were some of the directors who did not go on. Mr. Williams did not go on; some others did not go on.

Q.—Tell me what ones now you can call to memory that did not go on, so that to that extent at any rate we shall have the sheep and the goats divided? A.—Mr. Williams did not go on, and I don't think Mr. McLaren went on. Mr. Jackson went on the note. I think Mr. Williams and Mr. McLaren are the only two gentlemen who did not go on.

Q.—Dr. Aikens? A.—He was on.

Q.—Mr. Dryden? A.—He was on.

Q.—Any others now you think were not on? A.—That is all.

Q.—Only two that were not on? A.—Two I think.

Q.—Why were they not on? A.—They did not want to go on.

Q.—Why not? A.—I don't know.

Q.—Take us into your confidence and tell us what the discussion was? A.—Mr. Williams was an old man, he did not want to assume any liability for his estate, and he refused to go on, and I suppose Mr. McLaren for the same reason.

Q.—You do not want to say publicly he regarded himself as an old man? A.—He did not want to assume any responsibility.

Q.—Was there any discussion between these two or three saying "We are not responsible for that transaction at all; and we won't become responsible?" A.—They spoke of it in this way: They said they had done what they thought was in the best interests of the company in buying the bonds and it was a perfectly legal transaction, and they would not accept any liability. At the time we had the money for investment, we had other investments offered us, and one was a loan on C.P.R. stock. We made some enquiries from our solicitor and he thought at that time

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

we were not allowed to loan on C.P.R. stock.

Q.—I fancy he was right? A.—We have been advised differently since, from the Dominion Government; and he said there was not any doubt about the Atlas being within our rights, and we did not loan on the C.P.R. stock, which would have been far better than the Atlas Loan as it has proved.

Q.—Do you say the Dominion Government Insurance Department told you the C.P.R. stock was an authorized investment? A.—I did not say they said that; I only go by the Act of the Dominion Government.

Q.—You mean the Insurance Act; then we will not enter into a discussion of that now, because that probably is foreign to this point of the inquiry. You say there was some discussion, and it was thought that C.P.R. stock, which was offered at the same time, at any rate was in a doubtful class? A.—We were offered lots of loans of that nature.

Q.—You could have got plenty of loans just as good for the Continental at that time as the Atlas loan, paying 4½ per cent? A.—I suppose we could at that time, though the Atlas Loan was considered to be in first-class shape.

Q.—You would not have chosen it if you were acting freely and independently? A.—I looked over their reports for years back.

Q.—That was a very favorable time to get debentures, was it not? A.—No, at that time the debentures were pretty dear, you could not buy debentures earning 4 per cent.; we bought municipals to earn 3 7-8 and 3¾.

Q.—You think that was not a favorable time for buying? A.—Yes.

Q.—You could have got other investments which were absolutely within the Insurance Act? A.—They were absolutely within the Insurance Act.

Q.—They were on the same par as Atlas with regard to that feature then? A.—Yes.

Q.—And would have yielded you just as good a return? A.—Only loan company bonds would.

Q.—But you took them I suppose partly at any rate because Mr. Wallace was on your Board, and you had made this verbal understanding with him before? A.—There is no doubt about that.

Q.—That is the explanation of it? A.—Yes.

Q.—And if you had been receiving payment of any person's bonds in 1902 other than the Atlas Loan Company you probably would not have entered into an arrangement to take them back again later on? A.—Perhaps not.

Q.—Why did these parties all become liable on the note if Mr. Somers was buying the securities? A.—They did it to protect him.

Q.—Was there any discussion of the kind that I have mentioned between the directors, saying "You were at the meeting that approved of that security, and I was not present, and you may go into that transaction but I won't?" A.—No; they all accepted the responsibility; in fact most of them wanted to wipe off the loss right there and then, and would have done it had it not been for me.

Q.—You dissuaded them from doing it? A.—Yes.

Q.—Why? A.—I think it was to the best interests of the company not to do it.

Q.—Why? A.—We did not know what the loss would be at that time, but we were told by the Atlas Loan people, by Mr. Wallace, that there would not be any material loss on the debentures, and we were told by our solicitor that they would be a first claim on the assets of the company, and we thought if the loss was not going to be a very large one it would pay us better.

Q.—You found that idea was a delusion? A.—After we went to the Courts we found it was.

Q.—Would you have been paid in full if the debentures had ranked first? A.—A very respectable law firm told us that they thought they did rank first on the assets, but they found out differently when they went to Court.

Q.—Would you have been paid in full had they proved they ranked first? A.—Yes.

Q.—So for that reason you thought it should be carried on? A.—Yes.

Q.—That was in the year 1903? A.—Yes.

Q.—And the only effect of that transaction was to transfer the liability temporarily? A.—Yes.

Q.—Transfer the loss to a future

date if there would be a loss? A.—Yes.

Q.—Has that loss or liability or shrinkage in assets ever been shown by the Continental in its reports from that day to this? A.—No.

Q.—It should have been, should it not? A.—I do not see why.

Q.—Supposing the agreement were a perfectly genuine one? A.—It was a genuine one.

Q.—It was not a genuine purchase? A.—Yes it was.

Q.—It was a genuine purchase with a genuine re-purchase? A.—No, they have never been re-purchased; so far as the Continental is concerned it was a genuine purchase, and at the present time Mr. Somers or any other of the directors has no claim in any shape whatever on the Continental Life.

Q.—In respect of the loss on those? A.—In respect of those.

Q.—Why not? A.—Because they have not.

Q.—See what the agreement says? A.—That was released last year.

Q.—You are talking of the present time; I am talking of the time when the transaction was put through? A.—Yes.

Q.—What the agreement then provided was: "That in consideration of the premises and of the sum of one dollar." (Reads clause in agreement)? A.—What liability had we.

Q.—The liability you had under this agreement? A.—Yes.

Q.—The liability you had under the document was to pay to Mr. Somers the balance of 62 or 63 cents on the dollar you did not get from the Atlas Loan Company? A.—We did not have that liability at the end of the year.

Q.—You had it at the end of 1903; it might not have been fixed in dollars and cents, but there was that liability resting on the company; if you had had these debentures in your assets at the end of 1903 you would not have been able to put them in at their full market value? A.—No, but we sold them.

Q.—If you had kept them you would not have been able to put them in at their market value? A.—No.

Q.—You would have had to write them down and show a loss on them? A.—Yes.

Q.—Under this agreement at the end of 1903 the company was liable for that loss just as much as if it still owned? A.—They were liable on that document for 2½ per cent. on the premium income.

Q.—They were liable to pay to Somers—? A.—A commission of 2½ per cent.

Q.—The loss that would be sustained on those bonds; it is not a commission of 2½ per cent., they were calling it commission, but they were to pay it up to the extent of his loss? A.—Yes, but not out of any one year.

Q.—I am not saying any one year, but the company was liable for it; did you show that liability in your report at the end of 1903? A.—No.

Q.—Why not? A.—Because I did not think we were actually liable for that amount.

Q.—I do not know how you can evade it, it is transferring a liability that was plain on your books by reason of having the asset there, to a liability that was in some document that the Insurance Inspector would not see? A.—After we sold the asset we are not liable for the amount, we are liable for the actual 2½ commission each year.

Q.—Until you have paid the loss? A.—Yes.

Q.—And that means liable to pay the loss? A.—Yes, whatever loss it might be we would be liable for it.

Q.—And if the debentures had been kept that loss would have been something you would have had to show to the Insurance Department? A.—Yes.

Q.—By putting it away in a written document which the Insurance Department does not see you kept it out of the annual return? A.—Yes.

Q.—And that applies to 1904? A.—Yes.

Q.—Do you say the guarantee of the insurance company to pay that loss under this document was ever wiped out? A.—Yes.

Q.—When and by what document? A.—1905.

Q.—Would you show me the transaction that shows that? A.—I will send for it.

Q.—Let me see, if you will, the account showing the deposit of $30.-000 in the Traders' Bank at Beeton? A.—(Produces the company's general ledger).

Q.—The account is shown in the general ledger at page 445, and possibly you would have a copy of this account made for us? A.—Yes.

Copy of account showing deposit of $30,000 in the Traders' Bank at

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Beeton to be put in and marked as Exhibit 264.

Q.—It commences with an item on September 24th, 1903, to cash deposit, *re* Somers' cheque, $29,435.38; and on the same date "To cash cheque $564.62." The agreement was dated 12th August, do you remember why it was it stood in abeyance from the 12th August to the 24th September before the money was paid? A.—No, I do not know of any particular reason.

Q.—I suppose it would be some delay probably in Mr. Somers arranging the finances? A.—Yes.

Q.—And getting the other directors all to endorse? A.—Yes.

Q.—I suppose he would not carry it through until all had signed? A.—A sufficient number, I think there was some trouble with one or two men being out of town at the time.

Q.—He wanted a sufficient number to sign for his protection? A.—Yes.

Q.—Those two made together the $30,000, and on November 30th, "to cash $165.21" is also debited to the account, making together $30,165.21; what was that item, "To cash $165"? A.—They made up the interest on that date, that would be the interest on the $30,000 from the time it was deposited up to that.

Q.—On December 31st there is a balance $30,165.21 carried forward, and I suppose that is what is shown in your Government return—"Traders' Bank, Beeton, $30,165.21"? A.—Yes.

Q.—During the year 1904, May 31st and November 30th, items of interest again are entered in the account, $418 odd and $397? A.—Yes, that would be interest.

Q.—December 31st, the balance went forward after a certain cash item had been taken out, which we will refer to later, the balance then being $16,367.14; and May and November two other cash items, meaning interest allowed by the bank again? A.—Yes.

Q.—1905, the balance then stood at $16,187.25, and on May 31st another item of interest $242.14. That shows everything on the debit side of that account. Then on the other side of the account the first item is, 1904, February 20th, "By cash $2,504.36"—what does that represent? A.—That would be a cheque we issued, I suppose.

Q.—To whom and for what? A.—I do not know, I am sure.

Q.—To carry the transaction out consistently one would rather expect to find that was interest you were paying on the note? A.—It may have been.

Q.—Was it? A.—I can find out when Mr. Fuller comes back.

Q.—March 31st, "By cash $1,299.22," that is another item that went out of the account for your benefit in some way? A.—Yes.

Q.—May 31st, "By cash $291.46"; November 30th, "By cash $519.33." Then on December 31st, 1904, a cash item appears, showing a cheque, number five I think it is, for ten thousand dollars—do you remember what that was for? A.—Mr. Fuller will explain. Those things went all together.

Q.—I will be very glad to have his answer.

The answers are given by Mr. Fuller until a change is indicated.

Q.—What does February 20th, 1904, $2,504.36 mean? A.—That was paid on account of that commission of 2½ per cent.

Q.—That is the first payment out of the account by the company, and it is supposed to be an item paid to Mr. Somers for this 2½ per cent. commission, is that right? A.—Yes, on account of it.

Q.—That is because up to that time he has sustained that much loss on the debentures by reason of having to pay interest on the note? A.—Well, not altogether.

Q.—What was it? A.—I think that was an advance.

Q.—Was that an advance, or was that interest on the note that was to be floated to raise that— A.—No, there was no interest in that, I do not think so.

Q.—Was that given by cheque? A.—Yes.

Q.—Have you the stub-book here, or have you any account that shows this? A.—This is the whole transaction, it would be entered in the cash book.

Q.—Who was the cheque given to? A.—Mr. G. T. Somers.

Q.—With this transaction standing that way you would not let him take it away and put it in his own bank account? A.—I suppose he credited it on account of these debentures.

Q.—Why did he credit it on account of the debentures at that time? A.—Because there was likely to be a loss at that time.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—But it had been ascertained? A.—No.

Q.—Was it not there a loss up to that time by reason of the interest he had to pay with respect to that loan? A.—I do not know whether he had paid any interest at that time or not, but if it was I suppose probably it would be deducted from that in making up the account.

Q.—Let us go on and see; March 31st, By cash $1,299.22, what was that for? A.—That was the surrender value of that Murch policy.

Q.—May 31st, $291.46? A.—That was an item which was paid to G. T. Somers in the same way, but that would about represent the interest he would pay in the meantime.

Q.—We have that first, on May 31st, 1904, it is agreed that the item of $291.46 would represent the interest he would have had to pay on the note up to that time? A.—Yes.

Q.—The next item, November 30th, $519.33, that would be about the same? A.—Interest.

Q.—Then a ten thousand dollar cheque went out, December 31st, 1904, what was done with that? A.—I think we transferred that to some other bank.

Q.—What bank? A.—It was probably in the deposit there in the Union Bank, Toronto.

Q.—You are referring to a deposit of December 31st, 1904, of $22,889.68, deposited in the Union Bank, Toronto? A.—Yes.

Q.—And on the same date there was chequed out from that bank $50,946.46? A.—Yes, but that was the whole month's transactions there, and this also probably.

Q.—Have you anything to show how those were divided? A.—The Bank Journal and Cash Book would show that.

Q.—I would like to know how those amounts were divided? A.—Very well.

Q.—It appears that $10,000 from that account was transferred from the Traders' Bank at Beeton to the Union Bank at Toronto, do you remember about that now?

The answers are given by Mr. Woods until a change is indicated.

A.—I do not remember it.

Q.—Do you remember any arrangement being made to get that $10,000 released? A.—We may have needed some money in Toronto to purchase other investments, and withdrew $10,000 from the Bank in Beeton; no doubt that was it.

Q.—You had in the Union Bank at Toronto $11,009.54? A.—At the end of the year.

Q.—That was after the deposit of $10,000? A.—Yes.

Q.—So that I suppose you wanted it at Toronto to show a proper bank balance at the Union Bank, Toronto, rather than such a large balance in a small bank, in a branch bank out in Beeton? A.—I think when you get the books we purchased some investments at that particular time.

Q.—In 1905 there was a cash payment on May 31st of $352.03; I suppose that would be for interest to Mr. Somers again? A.—That would be equal to the interest.

Q.—November 30th, $317.20? A.—Yes.

Q.—Leaving a balance at the end of 1905 of $16,187.25? A.—Yes.

Q.—And that would be shown in your return for 1905? A.—Yes.

Q.—The 1905 return shows cash in bank $30,144.21; the schedule shows, Traders' Bank, Beeton, $16,187.25? A.—Yes.

Q.—1905 the entry appears, December 31st, carrying balance forward, and in 1906, May 31st, there is a cash item of $242.14; that represents interest allowed by the bank? A.—Yes.

Q.—There has been no other payments out of this account, and the account stands just in the same way now? A.—Yes.

MR. KENT: The Bank charges interest at what rate, on the debit side? A.—4 per cent.

Q.—You are getting 3 per cent. and paying 4? A.—Yes.

Q.—The bank simply has been charging you a certain amount of interest without any advantage being given whatever; the bank makes a cross entry in its books and charges a certain amount of interest every year? A.—They allow us three and charge us four on the note.

MR. TILLEY: It is not kept in the same account; I suppose the note would be kept as the note of the individuals? A.—Yes.

Q.—And you people would have to pay? A.—We were paying four per cent.

Q.—You take a cheque on this ac-

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

count, and with that cheque you pay interest at 4 per cent? A.—Yes.

Q.—And that is treated as an advance on account of the 2½ per cent. of commissions you are entitled to? A.—Yes.

Q.—Where is the document that has brought this transaction to an end, if the document has? A.—(Produces).

Q.—(Refers to blue book.) Now the first cheque that we were speaking of apparently was for $2,504.36, and is payable to the Traders' Bank. It says on account of G. T. Somers; can you explain that? A.—That would be on the 2½ per cent. commission.

Q.—What was coming to Mr. Somers at that time? A.—We did not know till the end of the year, but it was just paid on account. Our premium income that year was something over $100,000.

Q.—In what year? A.—The year 1904.

Q.—February, 1904? A.—Yes; on account of the commission for that year.

Q.—There is nothing paid on account of commission for 1903? A.—No.

Q.—In 1904 you make a payment on February 20th on account of the commissions of that year? A.—Yes.

Q.—Knowing then there was going to be the loss? A.—Yes.

Q.—And making Mr. Somers a loan on that account of that amount practically? A.—It was owing him practically speaking.

Q.—Not until the end of the year? A.—It was not due till the end of the year, we wanted to pay it so as not to have any liability at the end of the year.

Q.—This was only February; insurance companies have not been getting ready for the end of the year as early as February; it is generally the 31st December in order not to show any liability at the end of the year—any hour on the 31st is good enough? A.—Yes.

Q.—Why would you be paying that in February, just because Mr. Somers was wanting the money? A.—No; he paid that immediately on the note.

Q.—Why did we not get that some time ago; I was asking whether that cheque had anything to do with that note at the bank? A.—I did not know it till Mr. Fuller explained the thing.

Q.—His explanation, and this stub indicate to you that that money was credited on this note on which you were all liable? A.—Yes.

Q.—So that to that extent it did not get outside this transaction? A.—No.

Q.—It is just another element that is perfectly consistent with the whole scheme? A.—We paid early in the year to save interest I presume.

Q.—You were saving the one per cent.? A.—Yes.

Q.—You were really saving it for the company? A.—Yes, and we paid it in February.

Q.—"Memorandum of Agreement made the 15th of December, 1905, between G. T. Somers, etc., of the first part, and the Continental Life of the second part"—who prepared this? A.—Mr. Fuller drew it.

Q.—Under your instructions? A.—Yes.

Q.—When was this signed by Mr. Somers? A.—December, 1905.

Q.—What date? A.—The same date as it is drawn.

Q.—On the day it is dated? A.—I imagine so.

Q.—You know nothing to the contrary? A.—No.

Q.—Had the question of signing such an agreement been discussed before that? A.—Yes, for a long time.

Q.—By whom? A.—By myself and Mr. Somers and the Directors.

Q.—Who raised the question? A.—I was the chief party I think.

Q.—What made you suggest it, what had happened to make you suggest it? A.—I wanted to get rid of the liability.

Q.—What liability, your liability as endorser of the note? A.—No, the liability of 2½ per cent. each year to Mr. Somers.

Q.—You wanted to get the company free of the liability? A.—Yes.

Q.—And put the liability on— A.—On ourselves.

Q.—Was that sincere? A.—Yes.

Q.—Why? A.—Because I thought it was a handicap to the company to have that liability resting on our shoulders.

Q.—No person knew about it, it was kept as nice and quiet and peaceful there up in Beeton— A.—No, but we had our commissions to pay each year all the same.

Q.—You did not want to pay that out? A.—No.

Q.—Had you been paying it out?

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

A.—We paid it to the end of 1904, we did not pay last year.

Q.—How much did you pay in 1904, anything more than this one item, and these other items that are shown here by way of interest? A.—That is all.

Q.—This account contains every payment in or out of the funds of the company, either at Toronto or Beeton that relates to the transaction with Mr. Somers? A.—Absolutely.

Q.—There have been no other cheques passed or payments made? A.—None whatever.

Q.—How did you show these payments in your accounts, did you charge them up to commission account? A.—Yes.

Q.—So that it would be shown as increased expenses of getting business? A.—By that much money.

Q.—And the real transaction in the simplest form, calling it loss on securities, that was not shown? A.—No.

Q.—It was shown as an increased cost of business, putting it on the expenses of getting new business that has been run up so high by the agent—adding it on to the 65 per cent.? A.—Yes; when I suggested that I thought we could do that and then keep our expenses then below that of the other young companies, and we have been able to do that so far.

Q.—Notwithstanding that payment? A.—Yes.

Q.—That is by practising economy in other lines? A.—Yes.

Q.—You have been able to get it down so that even with that payment it has not been abnormally high? A.—We have all worked for nothing since we started the company almost, and we have been able to keep expenses down.

Q.—Let us see to what extent that is right; was there any re-arrangement at the time this document was executed or this arrangement come to of your remuneration? A.—None whatever.

Q.—There seems to be quite a jump in salaries in 1905; have you something here which shows your salaries in 1901 and on from then? A.—Yes.

Q.—This starts with 1902; in 1902 apparently your salary was $2,013.32? A.—I suppose my salary would be $2,000 and the balance would be—

Q.—You got 77 cents commission in that year? A.—I do not know what it was.

Q.—That was not on any very large policy? A.—No, I do not know what that 77 cents is.

Q.—1903, apparently your salary was raised to $2,250? A.—Yes.

Q.—And there was some item of $43.37? A.—Commission.

Q.—And you got other remuneration under the head of expenses $447, would that be for actual out-of-pocket expenses? A.—That would be travelling expenses, I travel a great deal.

Q.—And that would not include any profit or any more than the usual profit on such items? A.—No graft in that item.

Q.—In 1904 salary $2,500 and some small commissions; your actual payment never seems to be quite up to the salary; does that mean salary increased in the middle of the year? A.—No, it means sometimes at the end of the year there was an amount owing on the salary, and it was paid on the following year. We pay our salaries on the first of the month, and no doubt I had not got all my December salary till early in January.

Q.—1905 the salary is $2,750, and $415.09; what commission are you entitled to? A.—Those would be rebates I suppose, and I give vouchers for the commission and put it in as rebates probably.

Q.—Rebates to whom? A.—Insurers.

Q.—That is the persons— A.—If I write you for a thousand dollars and you only gave me $18 instead of $30, I would have to give a voucher for the balance to the company.

Q.—That is all head office persons, employed in the head office must turn into the company the full premium? A.—Yes.

Q.—And then if there is any rebate coming to the insured that would have to go through by way of a voucher, and it would be charged up to you? A.—Yes.

Q.—There is no personal profit in that? A.—No.

Q. That all goes for the good and welfare of the order, so to speak? A.—Yes.

Q.—It is one of the rebates the insured gets? A.—Yes.

Q.—That item indicates the amount of rebating you have done? A.—Yes, approximately speaking it would.

Q.—Mr. Fuller's salary is $1,500 in 1902; $1,800 in 1903; $1,800 in 1904, and $2,000 in 1905. There appears to be no serious jumps in those salaries? A.—I had a five-year contract, which

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

accounts for the increase there of $250 a year, starting at $2,250, and an increase of $250 a year for five years.

Q.—Is Mr. Fuller under a five-year contract too? A.—No.

Q.—Has your contract expired? A.—It expires at the end of this year.

Q.—It has not been renewed? A. —Yes.

Q.—Under what terms this time? A.—Under $4,000, $4,500, $5,000, and $5,500 and $6,000.

Q.—That is for the next five years you commence with $4,000? A.—It is an average of $5,000 for the next five years.

Q.—It commences first January at $2,750, that is the salary it leaves? A.—I am getting $3,000 this year.

Q.—So that you get $1,000 increase? A.—Next year.

Q.—Was Mr. Fuller on the note? A.—No.

Q.—And has his salary been arranged for the next five years? A.—No, he is only engaged by the year.

Q.—Dr. Aiken's remuneration seems to be about $1,000 a year? A.—He has had that for some years.

Q.—Has there been any change in the amount for the future? A.—None whatever.

Q.—My information is that the salaries in 1902 were $6,432; in 1903 $7,295; 1904 $7,564; 1905 they went up to $10,667, that is an increase of $3,100? A.—Are those head office salaries there? We have more salaried agents now than we had.

Q.—Has there been any remuneration allowed to directors? A.—Yes.

Q.—I mean special, this year? A. —No.

Q.—Or for next? A.—For the last four or five years we paid $1,000 a year and divided it amongst the whole of the directors; there had been 14 up to two months ago. It left about $300 for the President, and the other directors got about $100 a year. That included travelling expenses as well. We paid them $10 a meeting for the outside directors, and they pay their own hotel bill; and we paid $5 a meeting for the inside men, and $2 for committee meetings. We divided the $1,000 up amongst them, and it generally left $250 or $300 a year for the President.

Q.—You said this document was suggested by you, did all the persons who had signed the note agree to it? A.—They all agree now, it was a long time before they would but they did agree to it.

Q.—When did the last of them agree? A.—I do not know, it is some time ago.

Agreement of release filed as Exhibit 265.

Q.—That swelling of the salary expenses from 1904 to 1905 is said to be accounted for in this way, that the President was then given $500, the mode of paying the directors and President was changed that year? A. —Yes.

Q.—And the President was given $500 a year? A.—Yes.

Q.—Your salary was increased $250; Mr. Fuller's was increased a couple of hundred? A.—Yes.

Q.—Dr. Aikens instead of being paid so much per application was given a salary of $1,000, which brought it into this account instead of being charged to another account? A.—Yes.

Q.—That makes $1,900; and then the little extra increased office help Mr. Fuller says would account for the balance? A.—Yes, and perhaps some increased salaries in the office staff.

Q.—They would be scattered increases? A.—Yes.

Q.—What is the present arrangement regarding this loss on the Atlas Loan affair? A.—We are paying it ourselves.

Q.—The account will stand in the same way in the books for 1906; apparently there is just the item of interest credited? A.—Yes.

Q.—Why hasn't that money been chequed out and used and brought down to your Toronto branch if the transaction is at an end? A.—I guess we will do it.

Q. Why has not it been done? A. —We have not needed it particularly.

Q.—Is there any arrangement amongst you as to the proportion in which you will divide the loss? A.—Well, we are not paying the same.

Q.—Tell me how it is divided, please? A.—I cannot tell you just exactly how much each one is to pay.

Q.—Have you fixed on what it amounts to approximately? A.—We have not yet; of course we don't know how much our loss will be exactly.

Q.—About how much do you anticipate there will be? A.—There will be a loss I think of somewhere over $12,000.

Q.—Between $12,000 and $13,000;

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

what provision has been made about this item of $2,500 that was actually paid to Mr. Somers and two or three others items by way of interest; is that to be returned? A.—No, not to the office.

Q.—That account stands as it is? A.—That is an expense.

Q.—Which has been charged up and is closed? A.—Yes.

Q.—You take the account as it stands now and close it up from that? A.—Yes.

Q.—What share are you paying of that? A.—I am going to pay $1,200.

Q.—What share is Mr. Somers to pay? A.—I think he will pay a little more than that.

Q.—Do you know? A.—No.

Q.—Is it settled? A.—It will all be contribution.

Q.—What is the arrangement; you produce a document whereby the company is released, that cannot have been done except on some definite, clearly understood arrangement? A.—It is clearly understood that we are to assume the liability ourselves and pay it off ourselves.

Q.—Is there any document behind this document as between yourselves and Mr. Somers? A.—None whatever; it is just a mutual understanding that we assume the liability and are going to pay it.

Q. Has that document come before the Board of Directors of the Company, the document signed by Mr. Somers releasing the Company? A.—They have all signed it I presume.

Q.—Mr. Somers is the only man that has signed that? A.—Oh yes; I don't know whether that ever came up or not.

Q.—You don't know whether that ever came up before the Board? A.—I don't suppose it did.

MR. LANGMUIR: How much is Mr. Somers to pay? A.—I think he will pay about $1,500.

MR. TILLEY: Q.—I would like to know what arrangement you have made? A.—I cannot say exactly how much each one would pay.

Q.—Tell me the story about it? A.—There are some of our directors won't pay anything.

Q.—Are they some that are on the note that won't pay anything? A.—Yes, I think there are.

Q.—You told me a moment ago that they had come into the arrangement now? A.—I did not say that they had come into the arangement to pay so much each; I said they had all released Mr. Somers.

Q.—Have they all released Mr. Somers? A.—I presume so.

Q.—Have arranged it? A.—He told me they had.

MR. KENT: I am bound to say I do not like the way in which the witness is replying. It is my opinion he has been playing with the Commissoin from the very start. I must say I am not satisfied with the way in which the replies are being made. For myself I should feel bound to probe this matter further unless the witness changes his method of replying. There are things he is bound to be familiar with, about which he continually says "I don't know," "I suppose." I must say that I have been surprised from the beginning at the way in which the replies have been given.

MR. TILLEY: The indefiniteness seems to be becoming more pointed just at this part of the inquiry.

Q.—I think you ought to tell us just what the transaction was when that document was put through? A.—I have been trying to be as accurate as I could, but there are some things I don't know definitely, about how much each man is going to pay on that note.

Q.—Who is arranging that? A.—Mr. Somers.

Q.—Mr. Somers is here? A.—He is in the city.

Q.—He will be able to tell us that then? A.—Yes.

Q.—Tell me, so far as you have been a party to it, what has been said and what has been done about it A.—There would be nothing done more than that, that we have arranged to assume the liability ourselves and pay it ourselves.

Q.—You say "We have arranged to assume it ourselves, and pay it ourselves?" A.—Yes.

Q.—Who are we—Mr. Somers and you, as far as you know? A.—Yes.

Q.—Do you know of any person else? A.—Yes.

Q.—Who? A.—Dr. Aikens, Mr. Jackson, Mr. Scott of Listowel—there are some people who are on the note that would not do it. There is the estate of Henry Cargill, they won't assume any liability.

Q.—What attitude does he take about it. He says "The company must

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

stand by Mr. Somers, I won't?" A.—Yes.

Q.—They say "I am not willing that Mr. Somers shall release the Company unless I am let off," that is their attitude? A.—Yes.

Q.—"If you alter that transaction then I will consider myself free from any liability"—that is the attitude Mr. Cargill takes? A.—I am speaking of the estate.

Q.—Who else takes that attitude? A.—I don't know that there are any others.

Q.—You have told us of the Cargill estate; what attitude does Mr. Dryden take? A.—He was quite willing to pay a portion of it.

Q.—What portion? A.—We cannot say till we know how much our loss will be.

Q.—By a comparison or a percentage or what is it he is to pay? A.—He will pay his share of the liability, I suppose.

Q.—Divided amongst how much? A.—I think there are about ten or eleven.

Q.—Does he say he will pay one-tenth of whatever the loss is? A.—Yes.

Q.—Are you to pay one-tenth? A.—Yes.

Q.—Is Dr. Aikens to pay one-tenth? A.—Yes

Q.—Is Mr. Scott to pay one-tenth? A.—Yes.

Q.—Mr. Jackson? A.—Yes.

MR. KENT: It remains to be seen whether these parties have agreed. The witness may say they are to pay one-tenth, I would like to be sure that these parties have consented to pay one-tenth each.

MR. TILLEY: Q.—Then, Mr. Woods, will you go on with the other names? A.—Mr. Vandusen.

Q.—What does he say? A.—He has signed the agreement I believe.

Q.—Then there is a signed agreement?

JUDGE MACTAVISH: Is there a signed Agreement undertaking to pay this note by all these people? A.—I understand so.

JUDGE MACTAVISH: That makes a very great difference.

MR. TILLEY: Q.—Do you mean now a signed agreement put through in December or at the time this document was put through? A.—There was an agreement with Mr. Somers.

MR. LANGMUIR: At the time Mr. Somers released the company? A.—Yes.

Q.—Was there a document signed then? A.—Yes.

MR. TILLEY: Q.—I asked you definitely whether there was such a document and you said no; I would like that document? A.—I think Mr. Somers has the document.

Q.—Mr. Holden says I did not ask you that question before; I think I asked you definitely was there any other document but this one relating to this transaction; was there any other document other than the two? A.—That has nothing to do with the company, it has to do with Mr. Somers and the Directors.

Q.—Probably it has a good deal more to do with the company than you think? A.—It is a matter between the Directors and Mr. Somers.

Q.—It is a formal document drawn up whereby the other Directors approve of Mr. Somers releasing the company? A.—Yes.

Q.—And a certain number have signed it? A.—Yes.

Q.—You have given me, so far as you can remember, the persons who have signed? A.—Yes; there may be some who have signed that I have not given you there; you can get the document.

Q.—We will have to get that agreement, and with that document we will have the whole history of the transaction so far as it has been put in writing? A.—Yes.

Q.—Anything else that has been done has been verbal? A.—Yes.

Q.—Is there any arrangement whereby any of these parties are to get any consideration from the company later? A.—None whatever.

Q.—Or any return of the money? A.—None whatever.

Q.—And out of your salary you are to pay $1,200? A.—Yes.

Q.—And take that loss yourself? A.—I got an increase of salary on the strength of it.

Q.—You get a salary of $4,000, next year running up $500 per year increase? A.—Five years.

Q.—That was arranged at the same time? A.—No.

Q.—It was not arranged at the same time? A.—No, that was not arranged till our annual meeting this year, which was in February.

Q.—It was arranged as part of the same transaction, that was taken into

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

consideration that you had to pay \$1,200? A.—I suppose it would be.

Q.—To that extent the company is paying your \$1,200? A.—I don't consider it so.

Q.—You would not get as large a salary if you were not paying the \$1,200? A.—I think so.

Q.—What do you mean by saying it was taken into consideration in fixing your salary? A.—It was practically taken into consideration, but I don't call that a big salary.

Q.—I don't know whether it is a big salary from an insurance man's standpoint or not, but it was fixed having regard to the fact that you had to pay out \$1,200 on this loss? A.—I think I would have got the same salary without it.

Q.—It was the reason that was urged to the Directors for fixing it, at any rate? A.—Yes.

Q.—And it was the reason that prompted them in doing it? A.—Yes.

Q.—Is there anything else that is to be paid to you? A.—No.

Q.—Any commissions? A.—No, I get no commissions.

Q.—Any business you turn in, there is no commission paid to you at all? A.—No.

Q.—Are any others of the persons who are on the note getting any remuneration? A.—None whatever absolutely.

Q.—No promise made to them by the company of any kind? A.—There is not any promise made either legally or morally to any one except the 2½ per cent., which has been cancelled. That is the only promise ever made by the company to any person.

Q.—And that 2½ per cent. has now been stopped? A.—Yes.

Q.—Are any of these directors to get 2½ per cent. now? A.—No.

Q.—Or any commission? A.—No.

Q.—Or any percentage on commissions? A.—None whatever, not a cent.

Q.—In so far as they pay the loss they pay it without any chance of compensation? A.—Yes.

Q.—The shareholders or Directors of the Continental Life Insurance Company incorporated a company called the Ontario Securities Company Limited? A.—Yes.

Q.—I will leave the other transaction until we get the document Mr. Somers has. What was the idea that prompted them in incorporating that company? A.—They thought it was a very good business proposition I suppose, and they went into it on that strength.

Q.—It was incorporated on the 10th December, 1903, was it not? A.—I presume so; I do not remember.

Q.—This is a copy of the Charter you said; the Charter is dated 2nd December, 1903, and recorded on the 10th December? A.—Yes.

Copy of Charter filed as Exhibit 266.

Mr. Tilley reads Charter.

Q.—George D. Lewis, Superintendent, he was Superintendent of Agencies for a time for your company? A.—Yes.

Q.—And I think was at the time this Charter was put through? A.—Yes.

Q.—Sidney Jones is a Director of yours? A.—Yes.

Q.—George Brewer Woods, that is yourself? A.—Yes.

Q.—Henry Wilberforce Aikens, he is the doctor and your medical referee? A.—Yes.

Q.—I suppose it was fashioned after the Dominion Securities Company? A.—Very much the same.

Q.—Taking a leaf out of a larger company's book, is that the principle? A.—That is the idea.

Q.—What was the immediate object that brought this company into existence? A.—Buy and sell bonds.

Q.—Yes, but then there would be something would there not, that would come up pointedly to make you come to a conclusion that it would be better to have such a company? A.—I always had a desire for the securities business for a good many years back, and I induced my Directors to go in with me in a small way.

Q.—Then it is your idea? A.—Yes.

Q.—You are an officer of this company? A.—Yes, I am the Vice-President of it.

Q.—You have handed me a list of shareholders at the present time, is this the list? A.—There are only a few; yes this list would be correct.

Q.—Other than the names on this list have there been any other shareholders of the Ontario Securities Company since it was formed? A.—None.

Q.—Read that list, giving me the amount of stock of each, and telling me what connection the people mentioned have with your Life Company directly or indirectly? A.—Rev. Mr. Yager, he has \$1,600.

Q.—Of stock in the Ontario Securities? A.—Yes. I have only met him once; I do not know him personally; no connection whatever with the Con-

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

tinental Life. He is a Methodist Minister I think in Zurich.

Q.—He is not connected in any way with any of your directors? A.—None whatever.

Q.—What member of your Directors got him into the Ontario Securities? A.—I think he bought stock from Mr. Somers.

Q.—Then the next one? A.—Is myself; I have $18,000 stock.

Q.—Paid up? A.—No, I paid up $6,100.

Q.—When did you subscribe for the $18,000 stock? A.—I subscribed for $20,000 originally and I sold $2,000 of it.

Q.—And then when did you pay up the $6,100? A.—Last year, 1905.

Q.—By cash? A.—Yes, all by cash.

Q.—Your own cash or the Continental Life cash? A.—Out of my own private funds.

Q.—Nothing to do with the Continental Life? A.—Nothing whatever.

Q.—No money raised by the assistance of the Continental Life? A.—Not a cent.

Q.—And the balance of your stock remains as an unpaid liability against you? A.—Yes.

Q.—What about Mr. Yager's stock? A.—His is fully paid, I think; I am pretty sure it is.

Q.—The stock of the Company is not being called up by regular calls, it is an optional matter to some extent? A.—Yes, some was fully paid and some was only partly paid.

Q.—And that portion of the stock that is partly paid is not all evenly paid? A.—No, some was paid more than others.

Q.—Just depending upon the arrangement that is made? A.—Yes.

Q.—Who is next? A.—Miss Flora McGill; she is a stenographer in our office. She was with the old Farmers & Traders, she has $500, and it is fully paid.

Q.—Paid by herself? A.—Yes.

Q.—Nothing to do with the Company? A.—No. Sidney Jones, he is one of the Directors, he has $15,500, on which he has paid between $5,000 and $6,000. Robert Jackson, he is a brother of Mr. J. A. Jackson, one of our Directors; he has $4,000. That is fully paid.

Q.—Is it his own, or your Director's stock? A.—His own, paid by himself.

Q.—Mr. Jones' stock was all paid by himself? A.—Yes; all these people paid for their own stock absolutely.

Q.—No connection with the Continental Life? A.—No. Mr. Somers, $16,400; he has paid $6,000 and some hundred dollars. Mrs. Mary McGill is the mother of Miss McGill. She has paid in $1,000. She has $1,000 fully paid stock. Mr. Scott is one of our Directors, he has $10,000, that is all fully paid. Mr. Emerson Coatsworth has $2,000, on which he has only paid $200 I think. Joseph Rosser, he has $5,000, on which he has paid 50 per cent. I am speaking from memory, but I think these figures are accurate. The next is Mrs. McLean of London. She has $1,000 of fully paid.

Q.—Who is she? A.—A lady in London; she has no connection with any of the Directors. She just bought the stock as an investment. The next is Mr. Fuller, $8,000.

Q.—He is your Secretary? A.—Yes; he has paid, I think some $3,000 or $4,000.

Q.—Paid by himself? A.—Yes.

Q.—Not by the Continental Life? A.—No.

Q.—Nor advanced with the assistance of the Continental Life? A.—No.

Q.—Or any of its directors? A.—Well, I may say he borrowed the money from one of the Directors, to buy the stock with in the first place, he borrowed it from Mr. Somers, but nothing to do with the Continental Life whatever; he is paying interest on the loan. Hon. John Dryden, he has $2,000, that is all fully paid. Mr. Mackay $1,000. He is one of our agents. He has paid in $200. Mr. J. A. Jackson $5,000, that is fully paid. Dr. Aikens has $9,000, on which I think about $3,000 has been paid. There is $100,000 subscribed, and I think there is between $40,000 and $50,000 paid in cash.

Q.—Has any other person on that list that you know of received assistance from Mr. Somers in connection with their capital stock than Mr. Fuller? A.—I do not think so.

Q.—Have you? A.—No.

Q.—You have not received any assistance from him? A.—None whatever; I used my own private means to buy it.

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

Q.—Who of that list are the Directors—Messrs. G. T. Somers, George B. Woods, Sidney Jones, Hon. John Dryden, J. W. Scott, Dr. Aikens, Joseph Rosser, J. A. Jackson—these are the Directors? A.—Yes.

Q.—And have always been the Directors? A.—No, Mr. Scott and Mr. Rosser were made Directors last year.

Q.—And all of these are Directors in the Continental Life? A.—Yes.

Q.—Mr. Somers is the President of the Ontario Securities Company, Limited? A.—Yes.

Q.—You are the first Vice President? A.—Yes.

Q.—Sidney Jones is the second Vice President? A.—Yes.

Q.—And Hon. John Dryden is Managing Director? A.—Yes.

Q.—Where is the business of the Ontario Securities Company carried on? A.—In the Manning Chambers; they have an office there.

Q.—They have a separate office from the Continental Life? A.—Yes.

Q.—And separate clerks and assistants? A.—Yes, no connection.

Q.—Do you devote any of your time to the affairs of the Ontario Securities Company? A.—No; when I say no, not in the day time I do not.

Q.—Is there a salary connected with your position? A.—No.

Q.—Or your interest in the Company? A.—No.

Q.—Is there with Mr. Dryden? A.—No, he got a bonus last year of $200 or $300. There was no salary.

Q.—What business then has the Ontario Securities Company carried on? A.—Organized the Sterling Bank for one thing.

Q.—Anything else? A.—No; only buying and selling debentures; of course they are doing that right along.

Q.—Those debentures are to some extent at any rate bought and sold with the Continental Life? A.—We have sold them some.

Q.—Can you tell me to what extent you have handled bonds and debentures that have gone through the Continental Life? A.—We have only sold a very few to the Continental Life; we have sold large blocks to other people.

Q.—Can you say what percentage has gone through the Continental Life? A.—About 10 or 20 per cent. probably.

MR. LANGMUIR: That is of the purchase of Debentures?

MR. TILLEY: Of all the debentures you have sold you have sold to the Continental Life that much? A.—Yes.

JUDGE MACTAVISH: You mean that proportion of the whole business is done with the Continental Life? A.—Yes. We have bought from the Ontario Securities Company about $40,000 or $50,000 of debentures. Mr. Fuller can give you the exact amount. I know it is a small amount compared with the other business.

Q.—I suppose you can let us have a statement showing, as we got in the case of another company, the debentures that you have handled and the relative prices you have charged to different companies? A.—Yes.

Q.—To whom have you made your other sales besides the Continental Life—insurance companies? A.—We sold a block of sixty some odd thousand to Wood, Gundy & Co.; they are in the brokerage business. I sold them another block of $112,000 and we have sold others to Mr. O'Hara.

Q.—Taking all these transactions such as you have indicated, who conducted the negotiations for those sales? A.—Mr. Somers and Mr. Woods.

Q.—Who gives attention to the Ontario Securities Company? A.—Mr. Somers devotes nearly all his time to it, in fact he does devote his whole time to the Ontario Securities and the Sterling Bank.

Q.—You would help selling those bonds? A.—Yes.

Q.—On commission? A.—No.

Q.—What remuneration would you get for the time you would spend at that work? A.—I get a dividend on my stock and a bonus at the end of the year if we have a good year; I get no salary.

Q.—You mean to say you get a bonus relatively the same as other shareholders do, you get a bonus according to the results and according to the work you individually do? A.—A bonus according to the actual results.

Q.—Tell me what bonuses you have got from the company? A.—I got a bonus in 1905, that would be the first year of our active business, of $1,200 I think.

Q.—What other directors of the Ontario Securities Company got bonuses in that year? A.—Mr. Dryden got a bonus of about, I think it was $250 or $300. Although Mr. Dryden is Acting Manager he does not devote very much of his time to the business.

Q.—I suppose you do a good deal

45th day, June 22, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

more than he does? A.—Yes.

Q.—Any person else that got a bonus? A.—Yes, Mr. Somers got a bonus.

Q.—How much? A.—About $1,000 I think, and I think Mr. Fuller got a small bonus.

Q.—How much? A.—I think his was $500.

Q.—Any person else? A.—That is all.

Q.—They are practically salaries? A.—They are not salaries, because if we do not make the money we would not pay a bonus.

Q.—To that extent it is conditional, that is what is regarded as remuneration for your services that you are fairly entitled to before the other shareholders get anything? A.—Yes.

Q.—What dividend did the shareholders get in the Ontario Securities Company? A.—They got 10 per cent.

Q.—They got that in 1905? A.—Yes.

Q.—When was your $1,200 voted? A.—The end of 1905.

Q.—About the same time as this arrangement came up for taking this Atlas security off the hands of the Continental Life? A.—It was after that.

Q.—Was that something else that was discussed in the same transaction? A.—It was not mentioned; it was not even thought of so far as I was concerned, and I do not suppose it was thought of with any of the rest; no connection whatever.

Q.—This document is produced, Mr. Woods, and is no doubt the one you were referring to, but it is not a formal agreement relating to the matter, but it is in the shape of a letter? A.—That is what I wanted to say, there was no agreement, but an understanding practically.

Q.—It is in the shape of a letter in writing, addressed to G. T. Somers, Esq., Toronto: "Dear Sir—I "am willing you should release the "Continental Life Insurance Com-"pany from their agreement of "August 12th, 1903, in regard to the "payment of certain commissions on "their premiums.

"Yours truly,
"J. A. Jackson,
"H. Wilberforce Aikens,
"J. W. Scott,
"James Rosser,
"A. Mackay,
"W. Vandusen,
"George H. Woods,
"Sidney Jones."

Q.—Did you obtain those signatures? A.—I had nothing whatever to do with it.

Q.—I notice the document is not dated? A.—No.

Q.—Do you know how long ago you signed it? A.—Just recently.

Q.—How long ago? A.—After my return from Manitoba.

Q.—When did you return from Manitoba? A.—Last night.

Q.—You signed it to-day? A.—No, yesterday.

Q.—Do you know when the others signed it? A.—I have not the slightest idea. Mr. Somers can tell you.

Q.—You know of no other signatures at all being got to it? A.—No, I do not.

Q.—Do you say Mr. Somers signed this Exhibit 265 before this letter was signed by the other parties to that note? A.—I don't know that he signed it before some of those parties did; he signed it before I signed it.

Q.—Did you see him sign it? A.—No.

Q.—When was it given to you? A.—It was not given to me at all.

Q.—You produced it here? A.—Mr. Fuller gave it to me, he has had it in his possession.

Q.—When did Mr. Fuller get it? A.—Some months ago I understand.

Q.—Will you find out when Mr. Fuller got it?

(The answers are given by Mr. Fuller until a change is indicated.)

A.—I got that some time ago.

Q.—How long ago? A.—A few days ago.

Q.—Get down to days if you can, some little time, a few days, which is it now, days or hours? A.—It was, I think, Tuesday of this week.

Q.—Did you see it signed? A.—No, it was signed before I saw it. I wrote the thing a long time ago and it was signed then, I believe.

Q.—You wrote it a long time ago? A.—Yes.

Q.—When did you write it? Last December.

Q.—On whose instructions? A.—Mr. Somers said to draw it up and he would sign it.

Q.—He told you that? A.—Yes.

Q.—Had you been discussing that matter with Mr. Woods and Mr. Somers before? A.—Yes, it had been discussed.

Q.—Any other parties to the conversation? A.—Well, no, not particularly that I know of. Dr. Aikens I think had been spoken to about it before.

45th day, June 22, 1906.

Q.—And the thing was just discussed as to the advisability of putting through such a document? A.—Yes; and the advisability of the Directors assuming the affair themselves.

Q.—Tell me why the Directors thought they should assume it? A.—Just in order to relieve the company of the liability.

Q.—Just to prevent the company paying out money; it seems an odd transaction for a man to pay money out of his own pocket rather than have a company pay it; that was the only thing that was discussed? A.—Yes.

Q.—Just to relieve the company of paying these commissions? A.—Yes.

Q.—And you say you were told in December to make out this document; and you did it on the day it is dated? A.—Yes.

Q.—15th December? A.—Yes.

Q.—You gave it to Mr. Somers and you got it back on Tuesday of this week, did you go for it? A.—I asked him for it.

Q.—Who told you to ask for it? A.—I wanted it produced because I knew it had been signed before and wanted it.

Q.—Why did you want it? A.—I wanted it to keep among our records as the thing having been fixed up in that way.

The Commission adjourned on Friday, June 22nd, at 4.10 p.m., to Monday, June 25th, at 10.30 a.m.

FORTY-SIXTH DAY.

MORNING SESSION.

Toronto, Monday, June 25, 1906.

CHARLES H. FULLER, sworn, examined by:—

MR. TILLEY: Q.—You made some statements on Friday as to certain transactions between the Continental Life and the directors of the company regarding the Atlas Loan debentures just before adjournment; those statements you made at that time were all correct, were they? A.—Yes, I think so. What did I say?

Q.—You made those statements when Mr. Woods was in the witness box, and of course you had not been sworn; I want you to confirm, now that you are sworn, that the statements you made then were correct? A.—Yes.

Continental Life.
(C. H. Fuller, Ex'd.)

Q.—I am not referring to any particular statement, but I want that phase of your evidence covered; that was the case, the statements you made at that time were correct in every particular? A.—Yes.

Q.—How long have you been connected with the company, from its organization? A.—No, since May 1st, 1900.

Q.—In what capacity have you acted? A.—As Secretary.

Q.—During the whole of that time? A.—Yes.

Q.—Have you been Actuary at all? A.—Yes, I have done the actuarial work.

Q.—To what extent are you qualified to do it? A.—I am not qualified by examination, but I am qualified by study and practice.

Q.—Would you like to hold yourself out now to a company seeking an actuary that you were capable to do the actuarial work? A.—I think so.

Q.—At any rate you think you are for a young company that has not yet commenced to pay out profits? A.—Yes, I think I could manage that part of it; I think I could formulate a plan for allotting profits also.

Q.—I have no doubt that you could formulate all the plans that some of them adopt; that would not be much of a compliment to you, at any rate? A.—I mean a plan that would be fairly correct.

Q.—You were speaking about this document signed by Mr. Somers; it is dated 15th December, 1905 (Exhibit 265)—you say you drew that on its date? A.—Yes.

Q.—Under whose instructions? A.—Under Mr. Woods and Mr. Somers; Mr. Somers said if I would draw it he would sign it.

Q.—Did he put it that way at that time, or was it still something under discussion? A.—If I drew it he would sign it, was my understanding of it, that he had arrived at that decision.

Q.—Had any of the other parties to the transaction, any of the other directors signified their willingness to assume their share of the liability A.—They had signified their willingness that he should do that to some extent.

Q.—Had any of them done it to the fullest extent A.—Dr. Aikens I think was willing, although I don't know that I could just go and swear he said he was willing, but I always

46th day, June 25, 1906.

Continental Life.
(C. H. Fuller, Ex'd.)

understood from his conversation that he was.

Q.—Tell me what the conversation was about, what line did it take? A.—In talking over the matter it was suggested that a release of this agreement of payment of commissions be given.

Q.—Who was the first to suggest that? A.—I think probably Mr. Woods.

Q.—What was it that occurred that made that necessary or advisable in his opinion? A.—He did not want to pay us any more of that commission.

Q.—Why? A.—I suppose to keep down expenses.

Q.—Oh no, that was not the only reason, was it? A.—No.

Q.—What was the reason that moved him? A.—Wanted to get rid of this agreement altogether.

Q.—Why? A.—Because Mr. Woods I suppose did not feel it was a very good thing to have the company under.

Q.—Tell me why again, why not a good thing to have the company mixed up? A.—If that agreement were released and the directors assumed the liability everything would be perfectly straight.

Q.—Why were they in 1905 trying to get it perfectly straight, when they were satisfied to have it otherwise than straight in 1903 and 1904? A.—In 1903 the company was young then, and to show such a loss as that would I think no doubt have hurt the company's business a good deal.

Q.—It would have affected the company's credit, it would have been a serious blow to the company to show that loss? A.—Yes.

Q.—That is all the more reason why the directors should have assumed it in 1903 than in 1905? A.—Yes.

Q.—What I want to know is why should the company have been treated more favorably in 1905 than in 1903, what had happened in the meantime? A.—Just it was discussed.

Q.—What brought it up for discussion—the directors knew the loss that would be incurred long before December 1905, didn't they? A.—No—

Q.—They knew there would be a substantial loss? A.—They knew in 1905 there would be, about this time.

Q.—What time was that? A.—About the middle of 1905, I think, they understood there would be about 40 or 45 cents on the dollar paid by the Atlas Loan Company.

Q.—How soon did they learn that? A.—I really forget now, about the middle of 1905.

Q.—Was it that information that changed their minds about the plan? A.—A good deal, yes.

Q.—What else besides that? A.—There was no other thing except the advisability of getting rid of the liability for the company.

Q.—You cannot tell me anything that was discussed between them more than that? A.—No.

Q.—You cannot say what argument Dr. Aikens used, or what argument Mr. Woods used? A.—No, I was not present at all the meetings.

Q.—Were you present at some of them? A.—Yes.

Q.—Who of the directors stood out against entering into this arrangement in 1905 that you knew of? A.—I don't know particularly.

Q.—Just look at their names and tell me? A.—It was not all discussed in the presence of all these gentlemen before me.

Q.—Had you heard you would be able to size up the argument, which one made the strongest objection—if you are in doubt take either one of two or three? A.—I don't know which made the strongest.

Q.—Who of the list objected? A.—I don't think any of them really objected strongly to it.

Q.—None of them objected strongly? A.—No.

Q.—Did any of them object at all? A.—It was talked of more in a kind of tentative way, you know.

Q.—Just a casual conversation you mean? A.—Yes, in my presence.

Q.—I want to know which one of these gentlemen objected, whether he did it casually or strongly or any other way? A.—I don't see anyone here that really objected.

Q.—None of them raised any argument against it? A.—I don't know of any one that did particularly.

Q.—We have got it down now that they were all willing to enter into it? A.—Every one here was not consulted in my presence.

Q.—What ones were consulted in your presence? A.—Mr. Jackson, Dr. Aikens, Mr. Jones.

Q.—Any others? A.—Mr. Somers, of course.

Q.—Any others? A.—Mr. Woods.

Q.—Any others? A.—No, I think not.

Q.—You do not know the atti-

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

tude of the others, Mr. Rosser—— A.—No.

Q.—Who saw him about it? A.—I saw him about it lately.

Q.—Why did you see him lately? A.—It was in reference to getting this paper signed.

Q.—Why did you ask him about it? A.—I just asked him if he would be willing to sign that paper consenting to Mr. Somers releasing the agreement.

Q.—Releasing the company? A.—Yes.

Q.—What did he say? A.—Mr. Somers and he talked it over at the same time.

Q.—When you saw Mr. Rosser was Mr. Woods with you? A.—No, Mr. Woods was in Manitoba.

Q.—Was Mr. Somers with you? A.—Yes, Mr. Somers was.

Q.—So that you heard the discussion with Mr. Rosser? A.—No, I did not, I just asked him about it and Mr. Somers——

—Mr. Fuller became slightly ill and his examination was discontinued.

Mr. G. T. Somers was called.

GABRIEL T. SOMERS, sworn, examined by

MR. TILLEY: Q.—You are a director of the Continental? A.—Yes sir.

Q.—And you have been a director of the Continental since it was formed? A.—Yes.

Q.—And were you a director of the Merchant's Life before that? A.—Yes.

Q.—And you were one of the parties that had to do with the organizing of the Continental? A.—Yes.

Q.—Just to establish the relationship of the parties at that time, tell me what directors of the Continental were directors of the Merchants Life? A.—I could not tell you without looking up something to refresh my memory; I know Mr. Dryden was.

Q.—And he is the President of the Continental? A.—Yes, you could tell from the books.

MR. WOODS: I can give you that information; Hon. Mr. Dryden, Mr. Emerson Coatsworth, Mr. Somers, Mr. R. S. Williams, and Mr. J. B. Reid, who afterwards resigned.

MR. TILLEY: Q.—The Continental was a company formed by the persons who were directors of the Merchants Life? A.—No sir, it was not, it was formed entirely a new organization.

Q.—But by the same persons? A. No.

Q.—Why not? A.—Because there are only some of the same persons.

Q.—Substantially the chief persons interested in the Merchants—Mr. Woods was an agent of the Merchants? A.—Yes.

Q.—And the other persons who took a prominent interest in the Continental were the persons who were taking a prominent interest in the old Merchants Life? A.—There were some directors of the old Merchants directors of the Continental; that is the only connection between the two companies.

Q.—You became an original director anyway of the Continental, and then you became Vice-President when? A.—I have not the date, but I would think about a year ago, perhaps a year and a half ago.

Q.—When the Continental was formed were you carrying on business in Beeton? A.—Yes.

Q.—As what? A.—As a private banker.

Q.—When did you give up business there? A.—I would think about between two and three years ago.

Q.—And you sold out, I suppose, your business at that time? A.—To the Traders Bank, about three years ago I should think.

Q.—Then you came to reside in Toronto? A.—Shortly after that, yes.

Q.—What business did you engage in in Toronto? A.—I am interested in the grain business here, which I was also interested in in Beeton. We have some twenty points in Ontario at which we buy grain. That has been my principal business since I came here.

Q.—Has the grain business been your principal business, do you say? A.—Yes.

Q.—What else has engaged your attention in Ontario? A.—The Ontario Securities Company.

Q.—That is a company formed, as Mr. Woods told us by the directors of the Continental, or some of the directors of the Continental? A.—Yes, that would be right, I think, to say by a number of the directors of the Continental.

Q.—It cannot be otherwise described than as a subsidiary company of the Continental so far as the persons interested and the directors go? A.—So far as the directors are concerned.

Q.—The Ontario Securities Company is a large shareholder in the Continental? A.—Yes.

Q.—Holding how many shares? A.—I could not tell you without making reference to the books.

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

Q.—I would like to get the information as we go along? A.—658 shares.

Q.—And that would be partly paid stock the same as the other shareholders? A.—Partly paid.

Q.—That was part of the new issue, was it? A.—Well, there is some of the new issue and some not of the new issue.

Q.—What stock did it get not of the new issue—had it bought stock from other shareholders? A.—There was some stock bought from other shareholders.

Q.—That is shareholders that were offering their stock? A.—Yes.

Q.—And then they subscribed for some new stock in addition? A.—Yes.

Q.—Was it in connection with that subscription for stock that the Ontario Securities Company was formed? A.—No.

Q.—Had nothing to do with that any more than that was one of the incidental matters? A.—Just formed purely as a business proposition.

Q.—In August 1903 you entered into this arrangement regarding the Atlas Loan Company debentures? A.—Yes, that date of the agreement.

Q.—Who conceived that agreement? A.—I would imagine that it came principally from Mr. Woods.

Q.—Who is Mr. Woods? A.—The manager of the company.

Q.—Any person else? A.—The solicitors I presume.

Q.—Who? A.—The solicitors who acted at the time—do you with the names of the solicitors?

Q.—Yes? A.—Messrs. Rowell, Reid & Wood.

Q.—It was not Mr. Coatsworth? A.—No.

Q.—He was the solicitor of the company? A.—Yes sir, he was the solicitor of the company.

Q.—Besides the solicitors and Mr. Woods, the Manager, who else was a party to the developing of this agreement? A.—Will I read the names of the parties?

Q.—No, I want to know who it was that evolved the idea.

JUDGE MACTAVISH: Who negotiated it? A.—I think the parties all met and discussed the matter and arranged it.

MR. TILLEY: I am not asking about who arranged it, I want to know whose idea is it you have here? A.—The solicitors' idea.

Q.—Tell me what it was that the agreement was to accomplish? A.—What you are referring to of course is the Atlas Loan; would you like me to—

Q.—I would like you to answer my question? A.—I would like to make a statement.

Q.—I will give you a chance to make a statement when you answer my question; I want to know now what purpose was intended to be served by the agreement? A.—The purpose intended to be served by the agreement is exactly as set forth in the agreement, to take these debentures and hold them in trust by myself for the directors until it was ascertained whether there would be a loss on them or not.

Q.—Was it intended by the transaction to in any way benefit the Continental Life? A.—Yes.

Q.—How was the Continental Life to be benefited? A.—If the announcement had been made in the papers at that time that the Continental Life had lost $30,000 through the Atlas Loan it would have been an incorrect statement.

Q.—Why? A.—Because the loss has developed now not to be $15,000, and it would have made the company's business very difficult to get, and I consider the company have saved from fifteen to twenty per cent. in the pushing of business through this agreement, which it would otherwise have cost them.

Q.—The object that was to be served by the agreement was to prevent it being known the true condition of the Atlas Loan Company loss? A.—No, I won't go that far.

Q.—How far will you go? A.—At the time of the Atlas Loan loss we were advised by counsel that these debentures were a preferential claim on the assets of the company and that there would be no loss, and it is so stated on the face of the debentures that they were a first claim on the assets as well as the mortgages of the company.

Q.—Did you or did you not believe that you would have no loss? A.—We were led to believe that.

Q.—I am not asking you that question, I am asking you whether you did or did not believe there would be no loss? A.—I think that would be very difficult to answer.

Q.—No; I want your own individual belief? A.—As to whether I thought there would be a loss or not?

Q.—Yes, that is a simple question?

A.—I was not prepared to say whether there would be or not.

Q.—I want to know what you thought about it at that time, you would not go into all this transaction unless you had some idea of it? A.—This transaction as far as the wording of it was concerned was simply a matter of protection for the future in the event of there being one.

Q.—I am asking you whether you thought there would be a loss? A.—I was under the impression there would be no loss, and I was prepared to fight it through the Court.

Q.—But you were not willing to come out boldly and say, "We hold the securities, but there will be no loss?" A.—For the reason I before stated.

Q.—So that the object to be served was to prevent the real condition being known—will you go that far? A.—No; there was no deceit in the matter whatever so far as I understand it. I am prepared to make a statement to prove that.

Q.—Were you prepared at that time to tell the shareholders, the policyholders and the insuring public that there would be that loss on the Atlas Loan Company's bonds as shown by this document? A.—If I had been asked so I would.

Q.—I suppose you would not have told an untruth? A.—No, if I had been asked.

Q.—You were not disclosing that? A.—No.

Q.—And that was part of the object you had in view that it would not be disclosed? A.—The object in view was not to injure the company's standing.

Q.—That was part of the object you had in view, so that in the natural order of events it would not be disclosed? A.—I simply give my answer, that the object in view was to prevent the company suffering from misapprehension by the public.

Q.—So that you thought the best way was not to let the public know so that they would not misinterpret it? A.—We could not state a loss had been made which had not been made.

Q.—Answer my question; did you think it best that the public should not know anything about it for fear that the public should misinterpret the transaction? A.—For fear they should misinterpret it, yes, I think that would be so.

Q.—Leave off the reason; you come back to what you said before, you did not want the public to know? A.—I want to be perfectly frank with you.

Q.—That then was the object, that the public, the policyholders or the shareholders should not know? A.—Should not be misled by a wrong impression as to our loss.

Q.—And you feared there would be a wrong impression if they knew? A.—Yes.

Q.—Therefore "Do not let them know?" A.—If the amount was mentioned at that time it would be a wrong impression.

Q.—"Therefore do not let them know?" A.—I think that is implied.

Q.—I thought it was, but you seemed to be anxious not to make the inference? A.—You want me to say something which I do not think I should say, that is all.

Q.—Because it is not in accordance with the fact, or because you think it is not policy to say it? A.—No, I wish to be perfectly frank.

Q.—That being the object then the means to attain that object had to be considered? A.—Yes.

Q.—And I suppose that that was the object that was in your mind before you commenced to discuss the drawing up of these papers at all, that was the object you had in view, before the terms of the transaction or the details of the transaction were settled upon? A.—The object we had in view as I stated before was to protect the company——

Q.—Never mind going back to what the object was, but whatever that object was you had it in view before you outlined these documents? A.—Yes, most decidedly.

Q.—Then you say the documents were partly the suggestion of Mr. Woods? A.—Yes, and the solicitors.

Q.—They were not yours? A.—No, I was a party to it.

Q.—I do not understand your answer there to be an attempt to evade your share of the responsibility or credit for it; how many documents were prepared in all? A.—At that time.

Q.—Yes? A.—Two documents were prepared.

Q.—One of them Exhibit 261? A.—Last agreement mentioned between Life Insurance Company and myself, and the other an agreement between the directors and myself.

Q.—That is this agreement? A.—Yes.

—Last agreement mentioned between Mr. Somers and the directors marked

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

as exhibit 267. A copy to be substituted.

Q.—This agreement Exhibit 267 is dated 24th August, 1903, that is some 12 days after the document whereby you purported to agree to buy the debentures; do you remember whether both documents were signed at the same time? A.—I am inclined to think so; I could not say from memory.

Q.—Do you know whether the first one of the 12th August which you signed was delayed until the other was completed? A.—I could not say, I would imagine so.

Q.—Do you remember whether this first document was presented to you to be signed without the second one, and you refused to sign it until you got the second? A.—No, I do not think so.

Q.—That was not the way of it, it was always understood the other directors were to come in too? A.—There is no question about that.

—Mr. Tilley reads Exhibit 267.

Q.—I notice that Robert S. Williams' name is struck out of this document; do you remember why his name was struck out? A.—Mr. Williams had a paralytic stroke or some serious illness, and it was thought not advisable owing to his low condition.

Q.—Other than Mr. Williams, is there any director that is left off this agreement? A.—I don't think so.

Q.—So that all the directors except Mr. Williams were parties to the transaction? A.—Yes.

Q.—All these directors signed and when it says these parties advanced the money I suppose that means they all signed the note? A.—It means they all signed a promissory note for that amount.

Q.—This is not a copy of the original note that was given; but is a copy of the renewal note, Mr. Cargill having died between the date of the original note and the renewal note, so that his name does not appear; otherwise I suppose this note is the same in terms as the original note? A.—The amount is different; the names are somewhat different on it

Q.—Can I get a copy of the old note, the original note? A.—I can tell you those who were on the other note. The names on that agreement were on the other note otherwise it would be the same. There are two or three names on this not on the other one, Mr. Rosser and Mr. Woods.

Q.—Mr. Woods was not a party to this agreement? A.—No.

Q.—He was not a director at that time? A.—No.

Q.—Was Mr. Rosser a director A.—No.

Q.—He became a director afterwards? A.—Yes.

Q.—Mr. Cargill is off and Mr. Woods and Mr. Rosser are on? A.—Yes; I think there are two off. are there not?

Q.—Mr. Williams never was on? A.—That probably accounts for it.

Mr. Tilley reads renewal note referred to which was filed as exhibit 268.

Q.—Did you arrange for the transaction at Beeton? A.—For this, yes sir.

Q.—Who did you make the arrangement with? A.—The Traders Bank.

Q.—You would not make it I suppose in that way, who did you make it with? A.—It would be the manager at Beeton.

Q.—When did you arrange it, before the documents were executed? A.—It was about the same time that they were being executed.

Q.—That is as part of the arrangement under which they were all signed? A.—Yes, it was some time about the same time.

Q.—And no doubt you communicated to the parties the arrangement that you were making so that they would sign? A.—No, it was not determined at the time that the note was signed that it would be done at the Traders Bank.

Q.—But you assured them you would be able to carry it through in that way some place? A.—I knew I could carry it through with a note like that.

Q.—I ask you whether you assured them? A.—I don't think they would question me on that, they would take for granted that I could.

Q.—I want to know whether that was the understanding that you were going to finance the transaction? A.—Yes.

Q.—And they would not be asked to put up any money in actual cash? A.—That was not mentioned at all.

Q.—What was involved in your financing it? A.—If I had to put up money in actual cash of course they would re-imburse me pro rata.

Q.—Was that arranged that if you had to put up money in actual cash that they would reimburse you pro rata? A.—I don't think that was

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

mentioned, that was certainly understood.

Q.—Did you suggest you might have to put up money in cash? A.—No, because at that time we did not know there would be anything.

Q.—What arrangement did you make with the manager at Beeton? A.—Simply for him to discount that note for me at 4 per cent., and I also made an arrangement whereby the Continental would transfer part of their deposit, which was in the bank in Toronto to the Bank at Beeton.

Q.—How much of their deposit at Toronto? A.—$30,000, for which they were to pay the same rate they were getting in the bank here.

Q.—And they were to deposit in Beeton $30,000? A.—Yes.

Q.—There is no virtue of course in the expression you used about transferring it from Toronto, they were to keep $30,000 in Beeton, that is the sum and substance? A.—Not necessarily, if they did not keep it there we would have had to pay more interest on the note probably.

Q.—Under the arrangement you made they had to keep it there? A.—No.

Q.—You were getting four per cent.? A.—Yes, and if the money was chequed out we would have had to pay 5 per cent.

Q.—Under the arrangement you made to get four per cent. you had to keep it there? A.—They were to obtain that rate of interest.

Q.—And it was understood he wanted that rate of interest? A.—Yes.

Q.—And you stipulated for that rate of interest? A.—Yes.

Q.—And therefore it was stipulated that the $30,000 should stay at Beeton? A.—Not necessarily that it should stay. The two transactions were entirely on their own footing.

Q.—The getting of the four per cent. and the keeping of $30,000 were not on two separate footings? A.—Yes, they were entirely on two separate footings.

Q.—The getting of the four per cent. rate and the keeping of $30,000 there were distinct, you could get one without the other, do you say? A.—One was a deposit of $30,000 by the Continental solely for its own use, and the other was a note signed by thirteen responsible people, some of whom were millionaires, and which any of them would be pleased to cash at four per cent.

Q.—I am asking you if the arrangement as to the four per cent. interest rate was not embodied with the agreement to keep $30,000 thereof? A.—I told you that in my first statement.

Q.And you told me something else in your second? A.—I am sorry if I did.

Q.—Having made that arrangement it was understood that $30,000 was to be kept at Beeton? A.—Yes, to be kept there at that time; it was supposed to be a very temporary transaction.

Q.—Why was it temporary, because the Atlas Loan Company would be— A.—Because we expected to realize the full amount of these debentures.

Q.—By what, the winding up of the Atlas Loan? A.—Yes.

Q.—So that it was thought to be temporary, but to the extent that it was to remain there at all it was to remain in the way you have said. You had paid out from that account, or the Continental Life—you had paid out on he 20th February, 1904, $2,504.36? A.—Yes.

Q.—That would be the date of this renewal note that you gave us? A.—I am not sure as to the date of that.

Q.—The 20th February, 1904? A.—Well, that would be right then.

Q.—So that the renewal note was made for less than the original note, I suppose? A.—Yes.

Q.—How did that payment come to be made at that time, Mr. Somers? A.—That was made on account of the 2½ per cent. commission.

Q.—But why was it made? I am not asking you what it was charged for. There is a reason for everything that was done throughout this. What was the reason for that? A.—I couldn't give you any further reason than simply that it was as per that agreement.

Q.—Why was that taken out of that deposit in Beeton, why was not the transaction continued as it was? A.—At the same amount?

Q.—Yes. A.—I couldn't give you an answer to that I am sure.

Q.—It was credited, of course, on a note that you gave the bank? A.—It was taken off the original note.

Q.—So that it was a reduction. I suppose that the Continental Life Insurance Company knew then that there was going to be a loss on those debentures? A.—Yes, I think probably in 1904 it was understood. If you remember it was taken through the courts here and I think the Master

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

held that these were not a preferred claim.

Q.—So then you knew there was going to be a loss A.—It was supposed at that time that there was to be a loss, yes.

Q.—So that would be in the early part of the year 1904 that was demonstrated? A.—I am not just sure of the date but I presume it was about that time.

Q.—At the time this payment was made, you knew it then? A.—I would think so.

Q.—They would not have put through a transaction charging that up to commissions at that time if you did not know there was going to be a loss? A.—No, not unless they expected a loss.

Q.—So that you were sure of a loss at that time? A.—Yes.

Q.—Now the other payments, I suppose, are paid in respect of interest and so on? A.—Some of them are dividends from the Atlas Loan, some surrender value of the Murch policy.

Q.—But there is no payment in connection with that account that is not explained by the history of the transaction, there is no exceptional payment until you come to a $10,000 when it is paid down? A.—$9,860.38, that is a dividend paid by the Atlas.

Q.—December 21st, 1904, why did $10,000 go out of that account? A.—I don't know. That is a Continental Life transaction.

Q.—And you are a director and Vice-President of the Continental Life? A.—That would simply be a chequing out of $10,000.

Q.—That could not be done under the arrangement you had without raising the rate of interest. Did you choose to raise the rate of interest? A.—I presume that the amount of the note was down to that at that time.

Q.—By payments made by whom? A.—By these dividends.

Q.—What dividends had been paid? A.—This is a statement.

Q.—That explains it if that is the case, that in the meantime dividends had been paid by the Atlas Loan Company so that the note would be reduced by that amount? A.—Yes.

Q.—And you would have this $10,000 free? A.—We would have $10,000 relieved, I presume.

Q.—It would not have to be kept there under the arrangement you made? A.—No, it would not.

Q.—So that that $10,000 coming away on December 31st, 1904, just indicates that the money was being kept there to carry out the arrangement that you had originally made that you would keep it there as long as you were getting the 4 per cent? A.—Yes.

Q.—And I suppose your arrangement would be that you would have to keep a deposit equal to or more than the note? A.—Otherwise pay the additional interest.

Q.—As you reduced the note by these dividends you would be able to take away the money from the bank at Beeton? A.—Yes.

Q.—And as fast as you could take it away you did? A.—Well, not quite as fast but pretty near.

Q.—You didn't want the money staying up at Beeton did you? A.—No, I don't suppose we did.

Q.—And of course you would be reducing it as fast as you could because you were paying 4 and getting 3? A.—Yes.

Q.—It was costing the company one per cent. a year to carry through this transaction? A.—No, 3 per cent. was all we got from any bank.

Q.—The company would be paying 4? A.—The company were paying the one per cent. on the note, but three per cent. is what we got from all the banks and the money was just as well in Beeton as in Toronto. We had some six bank accounts.

Q.—It was costing the company the difference between 4 and 3 per cent. to carry this transaction along? A.—It cose them one per cent.

Q.—So the sooner the company could reduce the note, the sooner it would save the one per cent.? A.—When you say it was costing the company, it has cost the company something to carry it, but it is hardly fair to put it that it is costing the company that, because the directors are assuming that themselves.

Q.—But that was the idea of the transaction, that it was costing that? A.—It has cost what I have shown you in that statement.

Q.—The idea was that it was to cost the company one per cent. in respect of its financial arrangements? A.—At that time.

Q.—Then whose suggestion was it that some different arrangement should be made in 1905? A.—In 1905 it was clearly apparent to the directors.

Q.—It was clear a year before that or a couple of years before that? A.—If you will give me that statement a moment, that is what I have the

dates on, and I will refer to it if you don't mind.

Q.—Certainly? A.—I think it was towards the latter part, in December, 1904, that the large dividend was paid. That was the time that the compromise was made between the debenture holders and the Atlas Loan. Up to that time we were fighting them and to prove that there was something in our contention we were allowed more than the amount which would ordinarily have been paid us.

Q.—You did get a little preference over the depositors? A.—We got a preference as a compromise, an acknowledgment on their part that our contention had something in it.

Q.—Or that there is always chances in a law suit? A.—No, we had counsel's opinion on it and I suppose they were right. In December, '04, we compromised that claim and took as a partial payment $9,860. That is December 30th, apparently.

Q.—And on the following day you reduced the note at Beeton and took away $10,000? A.—I presume so.

Q.—The account shows that? A.—I don't wish to make that statement without looking it up. Then immediately after that or very soon after that we discussed the matter of disposing of the note.

Q.—You knew the balance standing there was the company's loss? A.—We knew there would be a loss.

Q.—You knew the balance was about the loss? A.—No, there is still a dividend to come.

Q.—Very small? A.—We cannot find out. We haven't got it.

Q.—What do you anticipate it will be? A.—I haven't any idea.

Q.—Oh no, as the Vice-President and a director of the company you have been considering these matters? A.—I don't think anyone has any knowledge. The matter is only up now to settle the charges.

Q.—At the time you made the settlement you were able to figure out about where it would place you? A.—I haven't any information.

Q.—When you made that settlement between the depositors and debentureholders, do you say that a statement of what the company would pay was not before all the parties to enable them to make the settlement? A.—I don't think so. We could not ascertain the charges in the several law suits that had been incurred.

Q.—You were given a rough idea? A.—It looked at that time as though there would be a loss of practically half the amount.

Q.—50 per cent. of the amount, that is sufficient? A.—There is no way of determining that.

Q.—Having ascertained that there would be a loss of about 50 per cent. at the end of 1904, when was anything done? A.—During the whole of the year 1905 it was discussed among the directors. I am not in a position to name any particular director. I think the directors were practically unanimous that some plan should be made whereby this would be wiped out, and we thought under the circumstances that it was up to the directors to do this.

Q.—Why? A.—Because the matter had been carried on in the way in which it was and had been misled as to the debentures being a preferential claim on the Atlas Loan.

Q.—Misled by whom? A.—Misled by the statements on the debentures I presume, and by the opinion we had had.

Q.—Honestly misled then? A.—Yes.

Q.—Then why should the directors take it off the company's hands? A.—Simply that we thought it was in the interest of the company to do so.

Q.—Do you purpose taking off every bad debt of the company? A.—We do in a case of that kind.

Q.—What makes this exceptional? A.—Simply because these papers had been entered into between us.

Q.—That was the truth of the matter That because you had put it through in the way you had, you thought it was up to the directors to wipe out the debt? A.—Yes, and the directors purposed doing so. I might say would have done so right now only that this matter is before the Commission.

Q.—That is the Commission has delayed you, has it? It has rather prevented you? A.—I suggested some few days ago that we pay this off and get through with it, but we thought the matter coming before the Commission it was better to let them hear the full particulars of it and as soon as this inquiry is over it will be paid off immediately by the directors.

Q.—There has been a long time since December, 1904, when the transaction could have been completed one would think? A.—Well, where there are so many parties to a trans-

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

action it is not very easy to get them all together.

Q.—But all unanimous? A.—Yes, I think they are. They are so unanimous that I took it upon myself to sign that agreement before they had all signed the release.

Q.—When did you sign that? A. —I think Mr. Fuller prepared it about the middle of December.

Q.—But there is a great difference between the aparent age of his and your writing? A.—Well, I don't think I signed it till about the 1st of the year, 1906.

Q.—Will you say it was signed before the month of June, 1906? A.—I think so.

Q.—This present month of June? A.—Oh yes, certainly.

Q.—You are sure about that? A. —Yes, certainly.

Q.—During all this time this thing has been canvassed and discussed by the directors? A.—Yes.

Q.—And the directors have been in a discussion amongst themselves as to the proper thing to do having regard to the fact that the transaction would likely be disclosed before the Commission? A.—When Mr. Fuller handed that to me I told him, I said "You may take it for granted that this is signed, I will sign it and release the company."

Q.—Why didn't you sign this, that would be simpler almost than telling him that? A.—Well, I laid it on my desk and it lay there for some time.

Q.—Waiting what? A.—I don't know any reason why it should have waited. I took it for granted that my word would be sufficient.

Q.—Where is your office, right in the Continental Life building? A.—No, one of my offices is in the Board of Trade building.

Q.—Where did you get this agreement, in your office in the Continental Life building? A.—I have no office in the Continental Life building.

Q.—But the Ontario Securities has? A.—No, their office is in the Manning Chambers.

Q.—I understood Mr. Woods to say it was the same office? A.—No, entirely separate offices.

Q.—The Ontario Securities Company's office is in the Manning Chambers and the Continental Life office is in the Manning Chambers? A.—They are both in the same building, an office building. They are entered from a hall way, there is no door between them.

Q.—It is not very far round, though? A.—Oh no, they are in the same building.

Q.—Then you are the President of the Ontario Securities Company? A. —Yes.

Q.—So that your office as President of that company would be right next door to the Continental Life? A.—Yes.

Q.—Now do you spend much time at the Ontario Securities Company? A.—I do, considerable time.

Q.—And I suppose this document was put on your desk there, not down at your Board of Trade office? A.—In the Ontario Securities, yes.

Q.—And Mr. Fuller, I suppose, you would see many times a day? A.—Well, sometimes I wouldn't see him for a week.

Q.—But when you were in town and had anything to do at the Ontario Securities Company you would see him about every time you were there? A. —I have been out of town over half the time since that agreement was drawn up. Perhaps three-quarters of the time.

Q.—Then you cannot say anything more about why that was delayed? A. —Simply that I gave him my word and I didn't think there was any question as far as that was concerned.

Q.—No, I would not suggest any question when you gave your word, except that when you say you will sign it I don't see any difference between that and signing it. Wasn't it because you wanted to get the other directors to sign something for you? A.—Well, if that had been so I don't think I would have signed it before that was signed. I think that is clear enough on its face.

Q.—No, I quite differ from you there, Mr. Somers. Was it not because you wanted to get your understanding completed with these parties who were liable with you before you would finally complete that negotiation, so that you would always have that to urge, you sign and I will sign, or you agree and I will sign, and meantime "I am signing this all right for you," but just put off? A.—No, there was no put off when I said I would sign it. That settled it as far as I was concerned.

Q.—But these other parties on the note with you did not know that? A. —If they had not met their part of the liability I would have had to meet it for them, that is all.

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

Q.—Probably you would, but they didn't know that? A.—Well, the legal aspect would I think be that.

Q.—Were you not advised by your solicitors that if you released the Continental Life that the effect in law would be that you would release the other persons on that note? A.—I knew that without my solicitor's opinion.

Q.—You did not discuss that with a solicitor? A.—No, I did not, because I quite understood that.

Q.—Wasn't that the reason that you didn't want to put your name to that document until you had protected yourself to that extent? I am not saying it was improper; I should think it would be the most natural thing to do? A.—It would be a business transaction. Well, I have been tired of this thing hanging over and I told Mr. Fuller I would sign it.

Q.—That would be all right, but would you not say, I will get them to sign first, because otherwise they will be all released? A.—I signed before a good many of them signed it.

Q.—What ones had signed it? Jackson had signed it? A.—I couldn't say that any of them had signed.

Q.—Do you know when any of them signed? A.—I know only a couple signed towards the end. Mr. Woods.

Q.—When did he sign? A.—The latter part of last week.

Q.—Thursday evening or Friday morning? When did Sidney Jones sign? A.—After that.

Q.—On Friday? A.—Thursday night or Friday.

Q.—Did you ever ask Jones to sign before? A.—No.

Q.—Was there any discussion between you about signing it? A.—I wouldn't say that there was any discussion. I took it for granted. I knew that he would sign it and Mr. Woods would sign it. I hadn't any question about it.

Q.—Mr. Vandusen? A.—He signed it, I think, about two weeks ago.

Q.—Had you any difficulty in getting him to sign ? A.—Not at all.

Q.—Any promise made to him? A. —No, no promise at all.

Q.—Is he to pay his share, one-tenth or what? A.—There is no arrangement, simply that we are going to wipe out that money ourselves.

Q.—Have you some scheme on to make up the money to these parties the same as the Prudential Securities had? A.—We had the scheme of putting our hands in our pockets and putting up the money, that is the only scheme.

Q.—How much money is Mr. Vandusen to put his hand in his pocket for and take out? A.—His share. There is no decision of any kind. If anyone fails I will have to put it up myself.

Q.—You have not got anybody's promise to pay his share? A.—No share about it at all, simply an understanding that we are to pay it off, no share understanding at all.

Q.—Mr. Rosser or Mr. Woods? A. —I think Mr. Woods may have mentioned some amount that he would contribute.

Q.—How much? A.—I think his idea was that he would have about one-tenth of it, but there is nothing in writing.

Q.—But there is something in his salary representing it? A.—Nothing at all.

Q.—Wasn't his salary increased by reason of that? A.—No, it was not.

Q.—He intimated to us that there was something discussed at the time his salary was raised? A.—That was the first time I ever heard of it, when I saw it in the evidence. It never was suggested or mentioned in my presence before.

Q.—Had you anything to do with the by-law raising his remuneration? A.—I am not quite sure but perhaps I may have moved it.

Q.—Then do you mean that to answer the question that you do know you had something to do with the raising of his remuneration? A.—I know I was in favor of raising it.

Q.—Whether you were actually a party to it or not? A.—The reason I give you is this, that another company in the city had come to Mr. Woods and offered him $5,000 a year and I discussed the matter with some of the directors and we thought it would be unwise to let Mr. Woods go as he had been working on a very small salary, ranging from $1,000 to $2,750 and $3,000 which I think was a good deal less than any other insurance manager was getting.

Q.—Had the bonus that Mr. Woods got from the Ontario Securities Company anything to do with that? A. —Nothing at all.

Q.—Why did he get a bonus? A. —Simply for work that he had done.

Q.—What work did he do? A.— He earned it out in the West on a

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

trip there doing business for the company.

Q.—What company? A.—The Continental Life Insurance Company and on his way back he secured a block of Calgary debentures which I think would have netted the company about $1,800.

Q.—What company? A.—The Ontario Securities Company. On his way back he got an offer for them and he was sufficiently good to turn those into the company.

Q.—Which company? A.—The Ontario Securities.

Q.—How much was the block? A.—I think it was 60 some odd thousand dollars.

Q.—Mr. Woods being out in the West got a block of Calgary bonds or debentures? A.—Yes.

Q.—About $60,000? A.—Yes.

Q.—And you say he got another offer by which he could have sold them? A.—Yes.

Q.—And kept the profit do you mean? A.—He could have sold them, turned them over on his way here and kept the profit.

Q.—But that was part of the object of his trip to the West? A.—His trip to the West was to look after the appointment of a general agent. We had some trouble there.

Q.—And see about investments in the West for the Continental Life? A.—No, they were not mentioned at that time.

Q.—Why not, do you mean to say that the general manager of an insurance company would go through the west just to appoint an agent and not be inquiring as to investment conditions there and the chances of getting debentures and bonds and so on and mortgages of real estate? A.—No, I don't.

Q.—Was he doing it? A.—I understood his business there was in connection with the insurance.

Q.—How long was he away? A.—I couldn't say. A very short time.

Q.—He came back and turned these over to the Ontario Securities Company? A.—Yes, we got the benefit of them.

Q.—At the price he agreed to pay? A.—Yes, I don't think that they came through us at all. I think the sale was made and we simply got the profit.

Q.—How much was the profit? A.—I couldn't say without referring to the books.

Q.—Let us have the books; who can tell you? A.—We have a statement.

Q.—Now I left that Atlas transaction just for a moment. I do not know that I am through with it yet. If you want to make that statement now I am willing. While we are on this I find that in 1905, July 18th, these city of Calgary debentures were purchased for $60,450? A.—The amount realized was $60,931.91.

Q.—Were those bought and paid for before they were sold or were they resold before you had actually paid the money? A.—I don't understand your question.

Q.—I can get an option or an offer on bonds and go and resell them and not pay a dollar? A.—Well, he had an offer coming down, I think, from Æmilius Jarvis & Co. if you want the name.

Q.—I only want the names so far as I ask them. If I want them I will ask them. He got an offer while he was in the West, we were that far before? A.—While he was at Winnipeg.

Q.—He did not pay for them in Winnipeg? A.—No, I presume they were sent here and drawn against.

Q.—Did he agree then to buy at Winnipeg or bring it down here just as an option still? Did he come down here and say, There are bonds out there that we can get? A.—I am not in a position to answer that.

Q.—Why not? A.—Because I don't remember it.

Q.—You resold those bonds on a joint account as between your company, the Ontario Securities and another firm? A.—Yes.

Q.—The other firm not being connected with your institutions, either the Continental Life or the Ontario Securities Company? A.—No.

Q.—Who paid for those bonds? Did the Ontario Securities Company pay for them or did the persons to whom you sold them on joint account? A.—I don't remember.

Q.—I wish you would find out? A.—I will, if Mr. Hastings will bring the books along here. They were taken up by the parties to whom they were sold.

Q.—They were resold before any money was paid? A.—Yes.

Q.—Or an arrangement was made with Wood-Gundy that they should take them on joint account with the Ontario Securities Company and their own account? A.—Yes.

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

Q.—And they paid the money? A.—They advanced it.

Q.—And it was understood that they should finance it? A.—I presume so.

Q.—Was that the first lot of debentures the Ontario Securities Company ever got? It seems to be according to this sheet? A.—Well, that statement, whatever is there, this sheet I think contains the total list of debentures handled by the company.

Q.—Those debentures have since been resold? A.—Yes.

Q.—At a profit? A.—Yes.

Q.—Have you got all the profit now or are part of them on joint account? A.—I think they are all cleared up.

Q.—Will you be sure of that? A.—They were sold before they were delivered.

Q.—Were they sold by Wood-Gundy before they were paid for? A.—Well Wood Gundy financed them.

Q.—I know they did, but I want to know whether they had themselves in turn resold them before they made this arrangement with you? A.—I couldn't tell you that.

Q.—Can Mr. Fuller tell you? They were arranged to go to their ultimate destination and the profit was all ascertained before anything was paid on them, is that right?

MR. FULLER: I think so. The exact amount of profit would not be, but pretty near it.

Q.—That left a profit of $1,400? A.—Yes, something like that.

Q.—As the Ontario Securities Company's share of that profit, and Wood Gundy would get their profit besides? I want to know if that is their half? A.—This is the division here.

Q.—$830.96 yours and $589 Gundy's. So the Ontario Securities Company got $830.96. Now was it in respect of that transaction that you say Mr. Woods had done so much for the Ontario Securities that you should let him have a bonus of 1,200? A.—No, that was one.

Q.—What else did he do? A.—He done some work for them, working after hours.

Q.—What work could be be doing for you, are there any other debentures here that he got for you? A.—That he assisted in getting?

Q.—Yes, that is a better way to put it. A.—I imagine they would be.

Q.—What ones, will you pick them out? A.—Chatham, I think, was one. The City of Chatham $109,000 altogether. He happened to know some of the people there.

Q.—We have got City of Calgary and City of Chatham. Now will you name any others? A.—St. Catharines was another, $35,500.

Q.—And any others? A.—I don't remember any others.

Q.—Go over it carefully and take your time? A.—I am not in a position to state whether there are any others.

Q.—When did he get the City of Chatham debentures or know about them? A.—About the date on that statement I should think.

Q.—That would be July, 1905; that would be the first date that is here? A.—I presume so. They would be all in one block.

Q.—These cost .55 and interest? A.—Yes.

Q.—And these again were sold in this way, on joint account with Wood Gundy $70,000 of them. Subsequently when the next lot came in on joint account with Wood-Gundy, $10,000, making the first two instalments of bonds that you got? A.—Well, they all came together. I think that is the way we have sold them.

Q.—You think they all came together? Can you find that out? A.—I am pretty sure.

Q.—Were they paid for together? A.—I am pretty sure they were. Yes, all one lot.

Q.—Did the Ontario Securities Company carry them for a time or did Wood Gundy carry them? A.—We carried them all.

Q.—Until you sold them? A.—Yes.

Q.—Now you sold on July 26th and when did you, the Ontario Securities Company, get the Chatham bonds? How is it Mr. Fuller knows more about these than you do? A.—I have not been very actively engaged in looking up that class of work.

Q.—You are devoting your time in connection with Securities Company business, and Mr. Fuller in connection with the Continental Life. How does it come that Mr. Fuller knows about it? A.—July 26th, 1905.

Q.—Is Mr. Fuller assisting the Ontario Securities Company? A.—He gives any information they want.

Q.—Does he attend their books? A.—No, Mr. Hastings does. He used to at one time.

Q.—He has stopped now? A.—Yes, for some little time. He used to in the early stages of the company.

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

Q.—When their transactions would be smaller? A.—Yes.

Q.—Then let us consider this $70,000 that they sold on joint account with Wood-Gundy. Do you know whether they had been resold before the transaction was put through? A.—I don't think so. That many bonds would be sold at one time.

Q.—Have Wood, Gundy & Co. cleared out that lot that they took on joint account? A.—$70,000 went at that time. There would be $39,000 or nearly $40,000 that were not.

Q.—Now your profits were known on that 70,000 or approximately known, at the time when you took the whole bond issue? A.—Not at the time, no. When we tendered there was nothing at all then.

Q.—At the time you got them? A.—At the time they came here.

Q.—Did you make a tender for them? A.—Oh, yes.

Q.—Who made the tender? A.—It would be the Ontario Securities Company.

Q.—Are you sure or was it the Continental Life? A.—Yes, it was the Ontario Securities.

Q.—Was it some person? A.—I will perhaps find a copy of it. I am not familiar with the bonds at all.

Q.—Mr. Fuller can tell us perhaps; I am very glad to have you get your information. Mr. Woods and Mr. Somers went up to Chatham about the bonds Mr. Fuller tells me. Now, I suppose, when you go to Chatham you don't distinguish whether you are going as Continental Life director or Ontario Securities Company, do you, except by who pays the bill? A.—I was at Chatham at that time myself.

Q.—What doing? A.—I went up there to see about these securities.

Q.—And Mr. Woods was there too? A.—Yes.

Q.—And he went up about the debentures? A.—I suppose so.

Q.—You went together? A.—Yes.

Q.—And came back together? A.—Yes.

Q.—Who paid the expenses of that trip? A.—I presume it would come out of our own pockets.

Q.—Will Mr. Fuller look that up and see who paid the expenses? A.—I don't think anyone paid them.

Q.—I suppose on this trip to Winnipeg Mr. Woods expenses were paid by the Continental Life without any question? A.—I think so.

Q.—Here is a transaction as to $10,000 sold through Wood, Gundy & Co. in the same way. The profit on that $70,000 was to each of you $385.15 and they are closed out? A.—Well, I would rather get the information—it will place me in an awkward position because I am not familiar with it.

Q.—I hope Mr. Fuller will check you as we go along and I suppose you know as much as any person but Mr. Fuller? A.—I take it for granted that those statements are correct.

Q.—But does that represent the whole profit on those bonds when they are all cleared out? A.—I think that represents the profit on them cleared out as they are.

Q.—This $385.13 on the first and $43.41 each of you on the second lot? A.—Yes.

Q.—Then the third lot go to the Continental Life from you. The Ontario Securities Company take the whole profit $184? A.—Yes.

Q.—If you had taken the same profit as you did on the $10,000 what would you have got? You sold to the Continental to yield 4¼ per cent? A.—Well, you would have to ask Mr. Fuller. That is a matter of figuring up

Q.—Now take the City of St. Catharines. How did you get those bonds? A.—We went to St. Catharines.

Q.—The two of you? A.—Yes.

Q.—And I suppose again the same question would come up whether you went as Continental directors? A.—We did not. There is no question about that. We went for the Ontario Securities Company to buy those bonds.

Q.—The expenses were paid by the Ontario Securities? Did Mr. Woods go around with you on many occasions to buy bonds? A.—He went with me on three or four occasions.

Q.—What did you have to do with the Ontario Securities, of which you are President and devoting a good deal of time? A.—I devoted my time to the organization of the Sterling Bank.

Q.—That does not show here? A.—No.

Q.—The City of St. Catharines' debentures were sold on joint account with Wood-Gundy again? A.—Yes.

Q.—The first lot was $2,000 and the second $34,500? A.—Yes.

Q.—And the second lot was sold to them direct apparently, not on joint account? A.—Sold direct, apparently.

Q.—And there was a profit there of $237.61? A.—Yes.

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

Q.—Now will you tell me why the Continental Life did not get the profit on those Calgary bonds which Mr. Woods heard of when he was away on the Company's business? A.—I cannot tell you any more than I have told you.

Q.—You have not told me at all yet. Mr. Woods was up there on the company's business, his expenses paid by them, his salary paid by them; he gets track of debentures upon which a profit is arranged for before ever a dollar is paid out. Now why should not the company he is working for get the benefit instead of this other company of which the directors of the Continental Life are the owners? A.—It was not the Continental Life's business to buy and sell debentures in that way but it was the Securities Company's business.

Q.—That was a perfectly good investment for the Continental Life? A.—Perfectly good.

Q.—Then if their agent is out there and arranges for debentures on which he can get a profit, which are within their investment powers, why should not that company whose salary he is receiving and whose money he is using for expenses, why should not that company get the benefit of that rather than this subsidiary company? A.—It did not cost the Continental Life anything extra in the obtaining of those debentures; they had not men to go around selling the debentures the same as we had.

Q.—These were sold before they were bought? A.—Well, they were sold here in the city.

Q.—Before they were bought? A.—Not before they were bought.

Q.—Mr. Fuller says so practically? A.—No, I don't think so. They were not sold before they were bought.

Q.—Sold before a dollar was paid out? A.—They were turned over before a dollar was paid out but some time after they were bought.

Q.—How long after? A.—Some weeks anyway.

Q.—I would like to know exactly. Let us have the correspondence and see when that was.

Q.—Is this the date of the purchase, July 18th?

MR. FULLER: That is the date we got the $830 when the matter was settled up.

Q.—Was there anything in the books of the Ontario Securities Company regarding those debentures before July 18th, 1905?

MR. FULLER: No.

Q.—And at that date you got the money? A.—Yes.

Q.—So that there was not an entry put in the Ontario Securities Company's books before the money came in? A.—No, I don't think there was.

Q.—Up to that time you could have put in either the Ontario Securities Company or the Continental? A.—No, it had come before the Ontario Securities Company before that.

Q.—Show me anything that shows they had taken any responsibility regarding that item before they arranged for their profit? A.—Well, there is no question we would have to. There would not be necessarily anything in the books.

Q.—It would be arranged verbally by you or Mr. Woods? A.—Yes.

Q.—Then why are not you just as much Continental as Ontario Securities Company if there is a profit? A.—Their business is entirely separate.

Q.—But entirely common till the profit is ascertained? A.—No, it is not.

Q.—Tell me anything that showed that that was Ontario Securities Company before that profit was ascertained? A.—It was the Ontario Securities Company that purchased those debentures.

Q.—Show me anything by letter or invoice or anything that shows that the Ontario Securities Company took the responsibility of those debentures before the profit was arranged for? A.—I haven't anything to show you.

Q.—Is there anything in your books that will show it? A.—I don't think so.

Q.—Then there is nothing on record? A.—No, there is not.

Q.—To bind the Ontario Securities Company? A.—Nothing more to bind them than there would be in any other transaction of a similar kind.

Q.—Especially in connection with a transaction where the man who arranges it is away on a trip paid for by the life insurance company and his whole salary paid by the life insurance company. Can you tell me whether in that month of 1905 you had any money if you had wanted to be responsible? A.—We always had good credit, always a little money too.

Q.—The Ontario Securities always had good credit? A.—Yes.

Q.—Not always? I suppose every company must get a little time to get

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

credit? A.—No, I think the men associated with that company were men of financial standing.

Q.—Who are you referring to? A.—Mr. Scott.

Q.—Any others? A.—Mr. Rosser, Mr. Jackson.

Q.—These are all men of independent wealth? A.—One, I presume is worth a million dollars.

Q.—Is he the holder of unpaid stock in the Ontario Securities Company? A.—What do you mean by unpaid?

Q.—Stock not fully paid up? A.—In the Ontario Securities?

Q.—Yes? A.—No, his stock is all paid up, $10,000.

Q.—What security is his million dollars to any person doing business with the Ontario Securities Company? A.—It was not paid up at that time.

Q.—That is an entirely different matter; I do not want to follow that line. I do not think it is at all relevant and probably would not assist one way or the other, but the Continental Life in the summer of 1905 had large deposits in the banks amounting in July, 1905, to $50,000? A.—Yes.

Q.—And they had a loan on call of $7,085. Do you know who that loan on call was made to? A.—I do not.

Q.—I think it was to O'Hara, was it not? A.—It was made on Imperial Bank stock I think.

Q.—It had nothing to do with Ontario Securities Company transactions? A.—No, it was Imperial Bank stock.

Q.—Have you anything further to say about these transactions we have spoken of and Mr. Woods' connection with them; that is Mr. Woods going out on the company's business, expenses paid by the company, salary paid by the company and something on which a profit is ascertained and which has not been credited either to the Ontario Securities Company or the Continental Life until the profit is fixed, that that profit should go to the Ontario Securities Company rather than the company whose servant he is? A.—You are referring to that one lot of debentures?

Q.—Yes? A.—I have nothing further to say.

Q.—And the other transactions seem to be very much in the same category? A.—No, I should not think they would be in the same category. I went out to see about those myself.

Q.—Why should the General Manager of the Continental Life, who is supposed to be paid for his services and to give his whole time to the affairs of the Continental Life, be spending days going away with you examining into bonds, except for his own company? A.—Well, I could very often assist him in getting business as well as he assisting me.

Q.—You were Vice-President of the company and expected to assist, so that you should not get any particular credit for that? A.—Well, it is not the remuneration I got, anyway.

Q.—That is not anything to set off against Mr. Woods' services; it is not the remuneration but we will say the honour? A.—Well, perhaps there is something in the honour.

Q.—Then you say that this document regarding the Atlas Loan Company's debentures merely remained in that position from 1904 in December on without anything further being done by you; you got the document in December, 1905, and simply kept it lying there in abeyance, the whole thing standing in abeyance until a short time ago? A.—Yes, only that I gave my word that it would be signed on that day, the day he handed it to me.

Q.—And I suppose Mr. Fuller drew this letter for the other parties to sign? A.—Yes.

Q.—Did he draw it at the same time? A.—I don't remember.

Q.—Do you remember when you got it? A.—I do not.

Q.—You have agreed, you say, that the loss shall not be borne by the Continental Life, but you have not any understanding even yet between yourselves as to the proportion you are each to bear? A.—Nothing more than it will be paid off and assumed by the directors personally.

Q.—And there has nothing been done between you to make the transaction more definite? A.—Nothing, only the signing of that agreement.

Q.—An indefinite arrangement as to what each is to bear. Has the note been taken up from the bank? A.—The note has not. I said before we would have paid it off only we did not wish to make any change while the matter was before the Commission.

Q.—You are not a maker of the note? A.—Yes, I am a maker of the note.

Q.—Or is the note made in your favor? A.—It is made in my favor and I am a maker also.

Q.—You sign as maker along with the others? A.—Yes.

Q.—So that you join with the others in the liability? A.—I assume a full proportion of the responsibility.

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

Q.—The liability is not going to be borne in exact shares I understand you? A.—Well, if it is not I will pay what is short.

Q.—Can you tell me whether there is any arrangement about that? A.—There is no arrangement.

Q.—On the basis of the note you would all pay equal shares? A.—Yes.

Q.—Is that going to be carried through that way? A.—I expect it will be.

Q.—Are you relying on that joint liability of all? A.—I am not. I said before if anyone fails to pay their share I will pay it. That is as far as I can do.

Q.—As between yourselves the only thing that shows your liability is a note? A.—That is all and our word.

Q.—There is an arrangement with Mr. Woods that he is to pay about one-tenth? A.—There is no arrangement. It is simply his understanding of it.

Q.—Understanding brought about by mutual understanding of the parties? Just something like your understanding with Mr. Fuller that you would sign this document? A.—Yes, I think Mr. Woods has stated that he will pay that much of it.

Q.—Now you wanted to say something about that transaction? A.—I wanted to make a statement, if you have no objection, concerning the Atlas Loan. A very wrong impression apparently has got abroad concerning the agreement which had been entered into and I wish just to make this statement before the Commission. At the time these Atlas Loan debentures were purchased the Atlas Loan was considered a good and proper investment; their debentures, they were held by the Ontario Government and by a number of large financial institutions in the Dominion; some quite prominent ones. As to the legality of the investment, there was no question. The assets of this company were hypothecated by one individual who threw the company into bankruptcy.

Q.—That was one of your directors? A.—Mr. Wallace. He was a director.

Q.—That is the danger of having these companies interlocked in that way, is it not? A.—It was Mr. Wallace who was a director of the Continental Life at the time and who was the Manager of the Atlas Loan. Now ever since we ascertained that this trouble had come on—we got together and discussed the matter; we were advised by counsel that these were a first claim on all the assets of this company. At the time this agreement was signed there was nothing underhand at all about it; it was understood by us all that there would be no liability but what would be paid by the Atlas Loan. Then as a matter of protection in case there might be something, which we thought would be very trifling, if there was anything at all, this $2\frac{1}{2}$ was mentioned in the agreement. Now as to the effect of that being signed by the directors I think those of you who know them, know that the gentlemen whose signatures are attached to that are men of integrity. We thought if that was made public at the time it would be a very serious thing for a young company like the Continental Life, particularly where there was not a $30,000 loan, but the people would have got it that there was a $30,000 loan. We expected that there would be no loss, or a very trifling one at that time. The matter was brought up before the Master and decided against us and then we got together to decide how we could take care of this liability. We still thought, or thought then, that we should assume it as directors owing to the fact that it had not been made public, and the Continental Life paid nothing further, and during the whole of last year we as directors discussed this matter off and on during the whole of the year as to the paying off of this note, and I was perhaps more persistent in it than some of the others because I wished it disposed of. I had left Beeton, the note was there, and the difference of one per cent. accumulating against us, I pressed it on the directors, and they were all agreeable to it. When the matter was brought before me I said to Mr. Fuller I will sign this in any case, and if there is any liability I will have to assume it if the directors won't stand for their share. I understand that there is one director who is since deceased and whose heirs will not assume any liability, but as I said to our directors, some of them, on more occasions than one, that if it could not be arranged in any other way that I would be myself personally responsible for any liability of a director who refused to pay. All I want to do is to set before the Commission and the public the facts of it as it is. Now if there is anything underhand on our part, if we have not acted in the best interests of the company—and I wish to say that this amount will every cent be paid by the directors and the Continental Life will not lose one cent

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

in any shape or form by it, it will come out of the pockets of the directors.

Q.—Now I will put in a copy of this document, signed by the other directors, addressed to you, and also a statement of the transactions as you have them if you will let me have it. This shows the cash statement of amounts paid on the note from time to time does it? A.—It shows the payments made on the note and shows the whole transaction from its inception to the last date. (The two documents referred to filed as Exhibits 269 and 270.)

Q.—The chief item of $9,860 being the dividend you have received? A.—There are several dividends but they are all set forth. One is the Murch policy.

Q.—Now there have been transactions between the Continental Life and the Ontario Securities Company? A.—There have been, yes.

Q.—What financial transactions have taken place between them? A.—Do you mean the bonds?

Q.—I mean what you have in your mind, everything. I want a list of the financial transactions that have taken place between the two companies? A.—I think there is one prepared. I think the solicitor has it there.

Q.—Outside of these bonds purchased, what financial assistance has one of your companies given to the other if any, what loans have been made? A.—Loans in connection with?

Q.—Loans from one of those companies to the other, either way? A.—You mean between the Continental Life and the Ontario Securities. There was some bonds sold to them.

Q.—Sold by? A.—By the Ontario Securities Company to the Continental Life. And there were bonds purchased from the Continental Life by the Ontario Securities. On those they made no profit. Handled them for them without any charge. Any profit they did make on them they turned over to the Continental Life.

Q.—Tell me what bonds were sold by the Continental Life to the Ontario Securities Company? A.—I could give you a list of them. I could not tell you from memory.

Q.—I will put in as an exhibit a statement that is furnished (No. 271), which states the debentures sold to the Continental Life Insurance Company by the Ontario Securities Company, Limited. That is the first heading. The next is bought from and resold to the Continental Life Insurance Company. And the next list, debentures sold for the Continental Life Insurance Company. Now the Continental Life at a certain time made a call loan to the Ontario Securities Company? A.—Yes.

Q.—Of how much money? A.—I think it was $60,000.

Q.—On what security? A.—On the security of Sterling Bank stock and the bonds of the company.

Q.—Of which company? A.—The Ontario Securities.

Q.—Is that the only call loan that the Continental Life has ever made to the Ontario Securities? A.—I think so.

Q.—Will you make sure of that? A.—Yes, that is the only one.

Q.—That is the only financial assistance which it has ever rendered in the shape of a loan? A.—I suppose that could not be considered financial assistance. It is the only call loan.

Q.—It is the only loan, put it that way? A.—Yes.

Q.—Had the Continental Life money lying idle waiting investment when it made that call loan? A.—I don't know that they had that amount of money lying idle. I am not sure. I could tell from the books. The Secretary of the company I presume will give that.

Q.—Did the Continental Life not have to sell some of its securities in order to raise the money to make that loan? A.—The Continental Life sold those securities for the purpose of purchasing a new building which they have purchased here.

Q.—They sold some for that purpose, but there are other securities they have sold for other purposes? A.—At the end of last year we decided to purchase the Medical Building at $100,000.

Q.—How much of that fell to be paid? A.—I think about $40,000. I think Mr. Fuller will give you a statement.

Q.—You had to pay some $40,000 or $50,000 on that? A.—Yes, and by the 1st of May we had to pay off the balance, a mortgage held by the Canada Life.

Q.—Did you pay off the balance? A.—Yes, it is all paid off.

Q.—I do not want to go into the real estate transaction for the present. There was a transaction before that when the Continental Life sold some of its debentures. Do you remember the Continental Life sold

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

some Portage la Prairie and Chester debentures in July and August, 1905? A.—Yes, I don't know why those would be sold.

Q.—Do you remember when the Continental Life opened a bank account in the Bank of British North America? A.—Yes, I don't remember the date. They have had an account there for some time.

Q.—Since June, 1905? A.—I couldn't give you the date without looking it up.

Q.—Is that the account where the Sterling Bank deposits are made? A.—Oh no, there is no connection whatever, not the slightest.

Q.—Why were securities of the Continental Life sold and the moneys deposited and allowed to remain idle in the Bank of British North America? A.—Well sir, that is news to me. There certainly was no connection between those companies in any shape or form. I wish to be very emphatic on that.

Q.—Between what companies? A.—The Sterling Bank and the Continental Life. No shape nor form.

Q.—It was between the Sterling Bank and the Ontario Securities Company? A.—Yes.

Q.—And there was between the Ontario Securities and the Continental Life? A.—There was, but when you refer to the bank account in the Bank of British North America, I want to be very emphatic in stating that there was no connection in any shape or form.

Q.—Do you bank there? A.—Do I personally?

Q.—Yes? A.—I have a private account there.

Q.—Do the Ontario Securities Company bank there? A.—They carry one account there.

Q.—Where else? A.—In the Ontario and in the Sterling.

Q.—Any place else? A.—They have just the two now.

Q.—Which? A.—The British and the Sterling.

Q.—So that the Ontario Securities Company's bank account is there. Where does the Continental bank? A.—In the Bank of British North America, the Ontario, the Union, the Dominion, the Traders. The reason of all these accounts is to save exchange, as I think you will understand. To save exchange on the cheques we get. These different banks cash cheques at par if we deposit them in their bank and carry a credit there, so that we have accounts in all the banks that we find it convenient.

Q.—What was the date that the call loan of $60,000 was made to the Ontario Securities Company? A.—You would have to get that from the books. The 1st of February, 1906, Mr. Fuller tells me.

Q.—At the time that loan was made you had already paid for the building had you not? A.—No, they had not paid for the building until May I think it was.

Q.—They paid the $50,000? A.—Forty. I think the first lot was paid before the second was paid in May, if I am not mistaken.

Q.—One before and the other after the 1st of February? A.—Yes.

Q.—Now then it did not need any money for the building on the 1st day of February? A.—No, not on the 1st day of February.

Q.—On that date did the Continental Life sell some securities? A.—I cannot give you the exact date, but that statement you have there will give them to you.

Q.—I don't know that it does, just in that way? A.—I think so.

Q.—Where is the account of those Calgary, Chatham, Steelton and Fort Frances debentures that were sold on the 1st of February? Mr. Fuller refers to an entry in the debenture book at page 28, February 1st, 1906, "By cash, $10,996.75." What does that represent? (Mr. Fuller answers until a change is indicated.) A.—That represents the price of those debentures, the Fort Frances debentures, at a 4½ per cent. rate, the rate at which they were purchased.

Q.—That is February 1st that those were sold to the Ontario Securities Company were they? A.—Yes.

Q.—At the same rate that they were bought from the Ontario Securities Company. Now turn to Calgary Debentures. On Feb. 1st, 1906, a sale of $11,500 Calgary debentures. At what price had they been bought? A.—Bought to yield 4½ per cent.

Q.—How does that price compare with what was paid? A.—That is exactly the price that was paid.

Q.—Now Chatham Debentures. At page 35 under the heading of City of Chatham Debentures on February 1st, 1906, "By cash $20,421.43." A.—That was at a price to yield 4¼ per cent., which was the exact rate at which they were purchased.

Q.—Now Steelton debentures. On

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

February 1st at page 27 "By cash $16,156.20." Were any other debentures sold by the Continental Life to the Ontario Securities Company on February 1st, 1906? A.—No, that was all.

Q.—What do they all total to? A.—I think they were about $58,000.

Q.—Have you any statement showing those?

(MR. SOMERS answers.) A.—It would not be more than that.

Q.—It would come to between 58 and 59 thousand dollars. Why were these debentures sold by the Continental Life to the Ontario Securities Company on February 1st, 1906 at their cost? A.—I presume the object was to get 6 per cent. on the advance on the investment, rather than 4⅛th and 4¼, and the money would be required about the 1st May in any case.

Q.—The company had in the bank on the 31st January the day before $18,833.52. It could have used that money? A.—You are now including the $16,000 at Picton.

Q.—I am including just what your statements show? A.—But you said of course we could not use that.

Q.—What do you say about it? A.—I wish to know if you are including that?

Q.—You can do as you please. If you tell me to exclude that as a cash item? A.—I only ask you the question.

Q.—Don't ask me what I am going to do about it. You can say what you please about it. If you say that deposit at Beeton should not be treated as cash I will not treat it as cash? A.—You know how it should be treated.

Q.—I think I do. And that is not as cash, so that that item should be reduced in that way. On the same day the loan was made on the Sterling Bank stock? A.—Yes.

Q.—Tell me what the Ontario Securities Company did with those debentures when it received them? A.—Our usual mode is to place them in the Bank of British North America. We get our credit on them.

Q.—Did you get credit on those debentures? A.—Yes, I think so.

Q.—Then the moment they got the debentures the Ontario Securities Company took them to the Bank of British North America and raised money on them? A.—They were pledged to the Bank of British North America.

Q.—How much money did the Ontario Securities Company raise by that means? A.—I presume they would raise within ten points or perhaps five points.

Q.—Can Mr. Fuller tell us how much money was raised by that means?

MR. FULLER: $54,000.

Q.—What did the Ontario Securities Company do with that $54,000? A.—They used it in their business.

Q.—In what way? A.—You mean with the proceeds of those.

Q.—I want to know what use of the money was made? A.—We paid the Continental Life for them.

Q.—That was merely a passing of cheques. It came back to you. What did you do with the money you got from the Continental Life, if you call that crossing of cheques paying money? You gave a cheque to the Continental Life for what was treated as the purchase money of those debentures, didn't you, 58 or 59 thousand dollars? A.—Yes.

Q.—And immediately you got from the Continental Life $60,000 on the same day on Sterling Bank stock? A.—Yes, on $75,000 of stock.

Q.—Call it as much as you like, you got it on Sterling Bank stock, did I say $60,000? A.—Yes, I say $75,000 of stock.

Q.—Well, it was $50,000, wasn't it with a premium? A.—We paid $75,000 cash for the stock to the Sterling Bank.

Q.—When did you buy it? A.—I couldn't tell you that without looking it up, but I think about the 1st February.

Q.—That money then that was realized in that way was used to buy that Sterling Bank stock? A.—Well, I presume it would be indirectly. The facts are these; the Ontario Securities Company bought $75,000 worth of Sterling Bank stock.

Q.—On the 1st February, 1906? A.—Which they pledged and obtained a loan of $60,000, giving their guarantee. Now that is the circumstance.

Q.—Was the Sterling Bank at that time doing business? A.—They were not doing business. It was the final stage.

Q.—Had they got a license? A.—It was the final stage. They had made their deposit.

Q.—When did they make their deposit? A.—That same day I presume.

Q.—What was the deposit that it had to make? A.—$250,000. And they had a thousand subscribers and $600,000 and some odd subscribed for.

Q.—I am not concerned with that.

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

I am concerned with the fact that this money was being got to enable the Sterling Bank deposit to be made. That was the fact was it not? A.—It was got to pay for that stock which they had purchased.

Q.—I am not saying the way the transaction was put through. The money was got for that purpose, to assist in making the deposit for the Sterling Bank? A.—I don't think that is a fair way to put it, although I submit to your way of putting it.

Q.—Tell me this, what was the need of going through that transaction, of buying the Continental Life debentures upon which money could be raised and then getting a call loan? A.—They got 6 per cent. for that investment where otherwise they would get 4½.

Q.—Could you have borrowed the $60,000 on Sterling Bank stock? A.—I could have.

Q.—You possibly could have personally, but was it a security that would be loaned on by financial institutions without any interest in the concern? A.—It was a gilt-edged security.

Q.—I am not asking you about the security? A.—Yes, you did.

Q.—No, I am asking whether people would lend on it, the point is, could you get a loan on it? A.—Yes, I could at any time. Lots of financial institutions in the city here were buying bank stocks when they were organizing.

Q.—The bank was not then doing business? A.—I said before it was not.

Q.—Then, once more please, it was not doing business and it had to put up $250,000 before it could? A.—Yes.

Q.—Now then do you say that the stock of a bank that has not yet got its deposit up is a security which in the market you can raise money on as well as municipal debentures? A.—Yes, sir.

Q.—As well as municipal debentures? A.—I say that the banks organizing have all sold their stock, at least the majority of them, to financial institutions and they have subscribed for it.

Q.—That may be so, but I am asking you whether Sterling Bank stock at that time was as good a security to raise money on as the debentures you got from the Continental Life? A.—I could have gone and raised money on the Sterling Bank stock from several institutions in Toronto if I had wanted to.

Q.—You answer every question except the one I ask you. Was it as good security? A.—Equally as good as far as I was concerned.

Q.—Then why didn't you use that instead of going through the Continental Life securities? A.—The Continental Life got 6 per cent. and benefited by it.

Q.—Did you put that transaction through in order to give them the benefit of an additional 1½ per cent.? A.—I don't say that. I say they got it.

Q.—I want an answer to that question? A.—I say, I don't say so.

Q.—You did not put it through for that purpose? A.—No.

Q.—Then why did you do it if not for that purpose? A.—I simply say it was done as a business transaction.

Q.—Why do you choose that roundabout way? A.—Well, I don't look upon it as a roundabout way.

Q.—How many directors of the Sterling Bank are directors of the Ontario Securities Company? A.—Only three.

Q.—Were there any more? A.—No, never any more directors.

Q.—What three? A.—Mr. Jones, Dr. Aikins and myself.

Q.—All three being directors of the Continental Life? A.—Yes.

Q.—And of the Ontario Securities Company? A.—Yes.

Q.—Was Mr. Dryden never named as a director of the proposed Sterling Bank? A.—There was a number of proposed directors.

Q.—Was Mr. Dryden's name proposed? A.—His name was mentioned, but Mr. Dryden is on the Royal Commission in Ireland and has not been here for some time.

Q.—Was it never intended to have more than three directors in the Sterling Bank? A.—The only answer I can give you to that is, at the organization meeting the President and nine directors were elected.

Q.—Quite so, but before that was it not intended to have five directors of the Sterling Bank from the Ontario Securities? A.— I couldn't answer that. That would all depend on the shareholders of the bank.

Q.—In so far as it depended on Mr. Somer's view? A.—So far as it depended on my view I was quite satisfied with the decision of the shareholders.

Q.—Wasn't that your intention? A.—To have five of them.

Q.—Yes? A.—I don't think I could

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

answer that, that that was my intention.

Q.—Can you say it was not? A.—No, I have no opinion in the matter.

Q.—Notwithstanding that you were organizing it? A.—Yes, we had some twelve or thirteen names; Hon. S. C. Wood, Hon. W. J. Hanna, a lot of prominent names on the directorate. These were all proposed directors.

Q.—And did not these men refuse to go on because there were to be five directors from the Ontario Securities Company? A.—Well, I know there was an objection raised.

Q.—Was not that the ground of objection? A.—No, the Ontario Securities was not mentioned at all.

Q.—The Continental Life? A.—That was mentioned.

Q.—There was some objection raised and that was the reason they did not go on? A.—No, those two names were dropped.

Q.—But that was the objection they made? A.—These people were proposed directors after that.

Q.—Who were? A.—The parties that you refer to as being dropped.

Q.—Mr. Wood and Mr. Hanna? A.—Their names were on after that.

Q.—But didn't they take the objection that there were five directors of the Continental Life there and they would not go on for that reason? A.—I think they made the objection and then two of them stood up and said they would drop off, which they did and then that would settle it. I think if the Commission do not mind, it is very unfair to drag the bank into the proposition any more than so far as it refers to this loan. It seems to me that it is very unfair that a young institution that has had no part in this and with directors and shareholders who have no part, to have insinuations of this kind made. Of course I abide by the decision of the Commission.

JUDGE MACTAVISH: There are no insinuations made, Mr. Somers. Counsel is trying to get the facts. So far as the examination has gone it is proper and within the limits of our inquiry.

MR. LANGMUIR: In that connection I should like to ask Mr. Somers, whether in the light of what has transpired in connection with the Atlas Loan Company and other transactions, he now thinks it was a proper thing for a director of an insurance company to steer—if I may use the expression—its investments into another financial institution in which he is a director and is largely interested? A.—No, I do not think so.

MR. TILLEY: Does not that apply to the Sterling Bank in the same way? A.—No, sir, I don't think that should be brought in at all.

Q.—Why not? A.—Because the Sterling Bank was organized with a number of different directors outside of us altogether.

Q.—But at that time, at the time this loan was made? A.—As far as that is concerned there, I think you are quite justified, but when you go past that and start to criticize private meetings of directors, I don't think that is fair.

Q.—I am not criticizing private meetings, except to show that the Continental Life was the controlling influence at that time in the Sterling Bank? A.—They were not, because we had a majority of the directorate outside of them, and two of them dropped out.

Q.—Was that before or after the 1st February, 1900? A.—It was after that.

Q.—So that on February 1st it would be in the condition I have mentioned, that the majority were Continental Life directors? A.—Not the majority; the majority never were.

Q.—But five were? A.—There were five. There were some twelve names on it, I think, altogether.

Q.—The result of that transaction was that the Sterling Bank stock was bought by the Ontario Securities Company and I suppose it was bought for the purpose of providing the money to put up the deposit as the reason for buying it? A.—It was bought by the Ontario Securities Company purely as a business proposition. Purely so, sir.

Q.—Had the Ontario Securities Company been selling Sterling Bank stock? A.—Yes, purely as a business proposition.

Q.—Won't you go so far as to say that on February 1st, 1906, the object of the Sterling Bank at that time, to the knowledge of the directors of the Continental so far as they were common, was to get the money to put up this deposit, cannot we start with that? A.—I would not make that statement at all, because the bank had no connection with it at all, because the Ontario Securities purchased $75,-000 of their stock and paid for it. It was nothing uncommon if any other company had come along and done the same.

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

Q.—You were carrying on the Sterling Bank business at that time? A.—I was.

Q.—And you wanted the money to make the deposit in your position as Sterling Bank President? A.—I was not in that position at that time. I was simply organizing it.

Q.—Was there any President then? A.—No.

Q.—No Board? A.—There could not be a President at that time.

Q.—So the bank at that time was without a President, it had not had its organization meeting? A.—It had had the preliminary one.

Q.—But not its permanent one, its permanent Board was not appointed? A.—No, just the preliminary. That was the final stage.

Q.—You, as the person then organizing the bank, wanted to make the bank's deposit at that time, didn't you? A.—Yes.

Q.—This was what started this transaction that led to this buying of bonds and call loans? A.—If they had not got the money there they would have gone some place else and got it, which I could have done easily.

Q.—I am not criticizing that; I say was that the start, was that what prompted these transactions? A.—I don't think I am in a position to answer that. I cannot give the minds of other people.

Q.—At any rate you wanted the money to make a deposit and because you wanted the money for that purpose the Ontario Securities Company on that day bought that block of Sterling Bank stock, they would not have bought it on that day except for the purpose of getting the deposit? A.—They had agreed some time before that to purchase the stock.

Q.—They would not have done it on that day? A.—They had agreed some time before to purchase it.

Q.—On that day? A.—To purchase it at any time. As I say that was the final stage.

Q.—The Ontario Securities Company, with you as the President of it and you as the promoter of the Sterling Bank, was buying the Sterling Bank stock, and the bank not then being organized, not having started business at all? A.—We had nine hundred and some others who had done the same.

Q.—I am not criticizing that. That is the fact as I have stated it? A.—Yes.

Q.—You buy the stock and you then pledge that with the Continental Life Insurance Company? A.—Yes.

Q.—And get from it $60,000? A.—Yes.

Q.—And in order to give the Continental Life that money to lend, you would take these debentures professing to be a purchaser? A.—Yes, some of which we have retained.

Q.—But others have got back to the Continental? A.—Some of them.

Q.—So it was a mock purchase to that extent? A.—We sold several of them, some we retained.

Q.—You had common Boards and could do as you pleased, but it was the intention to return any you did not sell? A.—No, they would have the privilege of taking back any they wished to at cost, no charge made.

Q.—Was that in the form of a formal agreement? A.—No, simply an understanding. Any that we sold and made a profit on, they had the profit.

Q.—Then you took their debentures and the real money is put up by the Bank of British North America on the debentures of the Continental Life? A.—Only partially, of course. The same as any other transaction with debentures.

Q.—It boiled down to that result that you went through all that formality to get money from the Bank of British North America to put up the deposit with? A.—Well, that is only up to that extent; I don't think you should make it so broad.

Q.—To the extent of the $50,000 or whatever you got? A.—Yes, certainly no question. But you say the bank did this and that; the bank had nothing to do with it, it was Ontario Securities.

Q.—Do not let us get to a fine distinction as to when the bank stopped and started, something like Mr. Woods' trip to Winnipeg? A.—Well, I have not tried to equivocate, Mr. Tilley, I think I have been frank.

Q.—When you wanted to get the money to put up the deposit you wanted to get it from the Bank of British North America? A.—That is where we kept our deposit.

Q.—And that is where you expected to get the money? A.—That is where the cheque came from.

Q.—To give its security for the cheque you had to get the debentures of the Continental Life? A.—The Ontario Securities?

Q.—Yes? A.—The Ontario Securities pledge all their debentures there.

46th day, June 25, 1906.

Q.—And in order to get further debentures to pledge for that deposit, you wanted to get the debentures of the Continental Life, isn't that fair? A.—The Ontario Securities simply got a call loan from the Continental Life. It is different in the words you use.

Q.—The call loan was only put through in order to give the Ontario Securities, for a temporary purpose, the pledging with the Bank of British North America, these debentures? A.—The call loan was put through for the purpose of obtaining that amount of money which was applied on account of the stock which they purchased in the Sterling Bank.

Q.—And that purchase was made in order to get the debentures of the Continental Life to give to the Bank of British North America to raise that money there? A.—Well, of course you would have to assume that.

Q.—I would think you would have to assume that.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 P.M., June 25, 1906.

Examination of G. T. Somers continued:

MR. TILLEY: Q.—You did not arrange you say for the opening of a bank account in the Bank of British North America for the Continental Life? A.—No, I did not, not to my knowledge.

Q.—Were you aware of the opening of the account there when it was opened? A.—I do not remember the occurrence of the Continental Life opening their account in the Bank of British North America at all.

Q.—You knew it was there? A.—I knew there was an account kept there.

Q.—It never had anything to do with any transaction of yours or of the Ontario Securities Company or the Sterling Bank? A.—In no shape or form had it anything to do with the Ontario Securities Company, the Sterling Bank or with mine.

Q.—It was an account opened in the ordinary course of business by the Continental Life? A.—Entirely so.

Q.—Can you say why the securities of the Continental Life were sold to open the account? A.—I think you are mistaken in that; I know of no reason why it should be done, and I am satisfied it was not done.

Q.—The Chester and Portage la Prairie debentures were sold in 1905 were they not? A.—You will have to refer to that statement again—yes.

Q.—They were sold on July 6th, 1905? A.—Yes.

Q.—What rate of interest were they paying the company?

The questions are answered by Mr. Fuller until a change is indicated.

A.—Portage la Prairie were yielding 5 per cent.

Q.—Had you other bonds then in the company's possession that were yielding less than five per cent?

The questions are answered by Mr. Somers until a change is indicated:

A.—We sold those in order to make a profit for the Continental Life of $733.70.

Q.—Is it not better to say that you sold them and realized a profit rather than that you sold them in order to realize a profit? A.—No, it is not, because that is the reason they were sold.

Q.—You are positive about that? A.—Yes, I remember that transaction, because we found a market where there was someone wanting those debentures.

Q.—Where were the proceeds of that sale depositd, in what bank? A. The Bank of British North America.

Q. What was the amount?

MR. FULLER: $21,044.67.

WITNESS: It says here $20,747.40.

MR. FULLER: There may have been some other cheques.

MR. TILLEY: Q.—Was there ever any arrangement whereby the Continental Life or any other company should deposit in the Bank of British North America up to a certain or uncertain amount, depending on conditions, and at the same time a loan to the Ontario Securities Company from the Bank? A.—Absolutely none.

Q.—No connection between the accounts in any shape or form? A.—No.

Q.—So far as anything being arranged by you? A.—I am quite satisfied if it were so I would know, I am quite satisfied there was absolutely none.

MR. FULLER: The account was opened on June 30th.

Q.—And these were sold July 7th? A.—Yes.

46th day, June 25, 1906.

Continental Life.
(G. T. Somers, Ex'd.)

Q.—What entry was it first opened that Bank of British North America account?

MR. FULLER: A small deposit of $465.

Q.—Did you arrange for the opening of that account?

MR. FULLER: No, Mr. Woods did; I think I can tell you the reason for that account being opened.

MR. TILLEY: Q.—I think I should have had it some time ago? A.—The only reason it was opened was because they offered to collect our cheques at par at their branches if we would keep an account with them.

Q.—Was that any better terms than you were getting from other banks? A. Yes; it gave that rate with other points than we would have had. They also allowed us to cross on our cheques, "Payable at par at the Bank of British North America." There was no room for any question with regard to the Bank of British North America accounts.

Q. The Continental Life has held securities of other companies where directors are common to both companies, take for instance the Sun and Hastings? A.—Yes.

Q.—What Continental directors or shareholders are directors in the Sun & Hastings? A.—Dr Aikens.

Q.—Any others? A.—Did you say shareholders as well as directors?

Q.—If there are large shareholders I want the names of the shareholders? A.—Mr. Vandusen is a shareholder in the Continental; he was a director at one time but is not now. I think he is either the President or Vice-President of the Sun & Hastings.

Q.—Dr. Aikens is a director of the Sun & Hastings? A.—Yes.

Q.—Is that all you know of? A.—Yes.

Q.—Mr. Dryden? A.—He is not interested that I know of.

Q.—Besides the Sun & Hastings there is the Reliance Loan & Savings Company? A.—Yes.

Q.—What directors or shareholders in your company are interested in that company? A.—I do not know of any except Mr. Dryden. When you say shareholders there may be some shareholders, but Mr. Dryden is the only one I think you would want to know probably.

Q.—I mean such shareholders as are large and substantially interested in both companies to your knowledge? A.—I think Mr. Dryden is the only one.

Q.—Has the Ontario Securities Company ever had any dealings with those companies? A.—No, I do not think so.

Q.—Has any moneys of those companies ever been used in any way to promote the interests of the Ontario Securities Company or the Sterling Bank? A.—No sir, in no shape or form.

Q.—So that any loans made to those companies or debentures bought from them would not in any way affect any other transaction with these companies that you know of? A.—No sir, no shape or form that I know of.

Q.—You never were instrumental in putting through any transactions with the Sun & Hastings or the Reliance? A.—No, we never had any dealings with the Sun & Hastings and the Reliance that I know of.

Q.—Take the Continental Insurance Company, at whose suggestion would the debentures of the Sun & Hastings or the Reliance be purchased, at the suggestion of the Continental or at the suggestion of the selling company? A.—I think the way those things are usually purchased is that some representative perhaps of the selling company would call and see the manager and place before him the proposition.

Q.—Has any discussion come up at any meeting you have been present at the Continental Life regarding the purchasing of these debentures of other companies that some of your directors are interested in? A.—You mean in reference to purchasing the Sun & Hastings or the Reliance—

Q.—Some of the directors of your company being in the other companies, was that discussed at all? A.—No, it would be purely a matter of whether they were good securities or not.

Q.—I found one place in your minutes that $15,000 Reliance Loan Debentures were bought, and an order made that they should be sold as soon as they could realize the price that they were bought for? A.—Yes, I remember that now.

Q.—Can you tell me why such a resolution as that was passed? A.—Those were advertised in the papers here having a short time to run, and it was brought before the Executive, and the Executive thought bearing 5 per cent. or whatever the rate was, anyway it was a higher rate of inter-

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

est than the debentures were bearing, or any they were issuing were bearing, and they decided to purchase them on that account. After the Board came together, we had already some of these debentures, and the Board were not unanimous in our accumulating more of them; consequently when we found there was someone on the Board who was not satisfied we passed a resolution at the Board to dispose of them.

Q.—To get rid of them? A.—Yes, I remember that now.

Q.—You say that five per cent. was a good rate of interest for debentures there? A.—The rate of interest these debentures were advertised as bearing was higher than they were issuing.

Q.—To yield 5 per cent., would that be regarded as a pretty good purchase? A.—Yes, 5 per cent. would be regarded as a pretty good purchase.

Q.—Can you say why these debentures were sold that yielded 5 per cent., the Portage la Prairie? A.—We made a good profit on those.

Q.—But they were yielding you 5 per cent., why did you not continue them? A.—I have forgotten the discussion that took place with reference to those.

GEORGE B. WOODS, examination continued by—

MR. TILLEY: Q.—Just referring to that point that has been mentioned, can you tell me why those bonds were sold at the time when the Bank of British North America had just been opened, was there any connection between the two? A.—None whatever. I do not know why you should mention them in that matter, but we bought them to earn 5 per cent., and Mr. Brantzman knew of a man who wanted Portage la Prairie, and I said, "We have some in the Continental Life." I said, "What will he pay for them?" He told me, and I said, "It is more than they are worth." He said, "I know it is, but he is anxious to get them," and we sold those debentures we had in the Continental at the rate of $4\frac{1}{2}$, which netted us a profit.

Q.—It seems to me you left a large balance unnecessarily in the Bank of British North America, do you say that was not done intentionally? A. No, no connection with any company.

Q.—How many of these securities that were sold to the Ontario Securities Company on February first, 1906, came back to the company? A.—I do not know exactly without looking at the statement.

Q.—Will this statement tell it? A. —Yes.

Q.—You have written on the statement of securities dealt in between the Ontario Securities Company and the Continental Life, Bought from the Continental Life February 1st, Town of Steelton $15,000, to yield $4\frac{1}{2}$ per cent.; Fort Frances, Calgary and Chatham Bonds, all come back to the Continental Life; were they sold on February 1st, all of them?

MR. FULLER: Yes.

Q.—And they came back as the Ontario Securities Company I suppose was able to release them?

MR. FULLER: No.

Q.—When did they come back? A. —The dates are there.

Q.—April 6th, April 6th and March 5th you mean?

The questions are answered by Mr. Fuller until a change is indicated.

Q.—What was the occasion of bringing them back to the Continental Life? A.—They were considered a good investment as debentures.

Q.—No better than when they were sold? A.—No, they got them at the same price.

Q.—What happened, they put the transaction in shape so that the Ontario Securities Company could send them back to the Continental Life? A.—All that the Continental Life did was to pay the price for the debentures as the funds accumulated in the Continental.

Q.—Was the call loan being paid off at that time? A.—Yes.

Q.—Was it the money that came back from the call loan that took up those debentures again? A.—Sometimes it was, other funds assisting them.

Q.—But substantially was that the transaction, that as the call loan which the Continental Life had given to the Securities Company was paid off that the moneys were used to bring back the debentures that had been sold when the call loan was made? A.—It may have been that in one case but it was not altogether that in all cases.

Q.—There was an element anyway? A.—Yes.

Q.—Has the call loan been paid off entirely? A.—Yes.

MR. WOODS: Not at that time.

Q.—But it has been now?

MR. FULLER: Yes.

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

Q.—The Steelton debentures have not been brought back from the Ontario Securities Company to the Continental Life? A.—No.

Q.—Are they held yet by the Ontario Securities or sold? A.—The Ontario Securities are still holding them, but they are pledged I think.

Q.—Why are they not returned?

—The answers are given by Mr. Woods until a change is indicated.

A.—The Continental Life has not the money at present. One of the objects of selling those debentures was to have sufficient money on the 1st May to pay off the mortgage on the building they had purchased.

Q.—Of about $50,000? A.—$42,500 and interest.

Q.—There were some Mount Forest debentures sold in 1906, why were they sold?

—Mr. Fuller answers the questions until a change is indicated.

A.—They were sold to assist in paying for the building.

Q.—The Steelton debentures were not sold for that purpose? A.—The Steelton debentures were sold on the 1st February.

Q.—That was not for the purpose of paying for the building? A.—It was partly for that purpose, because we expected to have to pay this $42,500 on the 1st May.

Q.—But you would not sell debentures as early as February to get money for the 1st May? A.—We were making a call loan of 6 per cent. at that time.

Q.—And you expected that would be paid back by instalments? A.—Yes.

Q.—And it was paid back by instalments? A.—And we expected to call up on the 1st May anyway.

Q.—What put the Ontario Securities Company in funds to repay the call loan, the selling of the Sterling Bank stock? A.—Yes.

Q.—So that that was the last chain of all, that the call loan was paid by the Ontario Securities Company going out and selling the Sterling Bank stock, which was hypothecated against the call loan? A.—I suppose so, not altogether perhaps.

Q.—But substantially that is the transaction? A.—Yes.

—The questions are answered by Mr. Woods until a change is indicated.

Q.—You are a Vice-President of the Ontario Securities Company? A.—Yes.

Q.—Tell me why when you went out to Winnipeg at the expense of the Continental Life, as you did, didn't you? A.—Yes, I was out to the Coast.

Q.—You were paid by them, you went through to the Coast? A.—Yes.

Q.—What was the object of that trip? A.—It was a business trip of the Continental Life purely and solely.

Q.—To do what? A.—Appoint agents.

Q.—Anything else? A.—No.

Q.—Do you invest out there at all? A.—We have invested a little in Manitoba, not beyond that.

Q.—The question of investing was one of the matters discussed? A.—None whatever.

Q.—Not when you were out there? A.—No, we did not have any agents out there, and would not loan money where we had no agents.

Q.—You were getting agents? A.—Yes.

Q.—And your idea would be to become a factor in the financial affairs of the West? A.—We had often talked of investing in the Northwest Territories at that time, but a number of our directors had always opposed it, they thought it was speculation out there.

Q.—But when you found these Calgary debentures did you agree to buy them when you were out West? A.—Yes, I bought them.

Q.—In your own name? A.—Yes.

Q.—Tell me how you bought them, what did you do to make up the purchase? A.—I had a friend in Calgary who had some interest in the City Council, he told me they were going to issue some.

Q.—I am not asking what detail you went through, but how the transaction was acquired? A.—I saw the City Clerk, and they had not advertised these debentures at that time, and I made him an offer for them.

Q.—In writing? A.—Yes, in writing. He said he would call a number of the finance men together, and he would wire me I think to Vancouver, which he did, accepting my offer.

Q.—And then the transaction stood in that shape till you came home? A.—No, until I returned to Calgary and I saw him then, and he told me he had put the deal through, but they were not issued at this time, they were about to be issued some weeks later, and when I returned to Toronto—

Q.—You told us everything you did about them when you were out West? A.—Yes, about the debentures.

Q.—When you got to Toronto what did you do? A.—I turned them over

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

to another brokerage firm here on shares.

Q.—By a written arrangement? A.—Yes, by a written arrangement.

Q.—Have you got that? A.—We can get it for you.

Q.—It is not in this bundle Mr. Somers had this morning; this commences with July? A.—It was before that. There is a note from Wood, Gundy & Company accepting my verbal offer.

Q.—Addressed to you personally? A.—Addressed to the Ontario Securities. It might be addressed to me as Vice-President of the Ontario Securities.

Q.—I would like to see the document, what next was done? A.—In what way.

Q.—What did you do next, no entries have been made in the Ontario Securities Company's books yet? A.—No.

Q.—Or in the Life Company's books? A.—Wood, Gundy & Company had them two or three weeks before they were issued.

Q.—So that before any money fell to be paid you knew there was a profit? A.—Yes.

Q.—And there was a profit? A.—Yes.

Q.—Why did not that profit go to the Continental Life? A.—It had nothing whatever to do with the Continental Life.

Q.—You were on the Continental Life business? A.—Yes, these bonds had nothing whatever to do with the Continental Life.

Q.—They might have had the profit? A.—I might have bought them for the Continental Life, but I did not do so; I bought them for the Ontario Securities.

Q.—It all seems to be a mental process? A.—No, we were not buying bonds for the Continental Life, in fact we had not the money to buy $62,000 worth of bonds, if we had bought them to re-sell we might have managed it.

Q.—You had more money than the Ontario Securities Company to buy bonds with? A.—We could borrow on debentures.

Q.—You had more money than the Ontario Securities Company to buy bonds with? A.—Certainly, a larger concern.

Q.—And the Ontario Securities Company had a good many things to look after at that time? A.—But I had no power to buy bonds for the Continental Life Insurance Company, and I had power to buy bonds for the Ontario Securities Company.

Q.—If you saw a good thing take it for the Ontario Securities Company? A.—Anything we bought for the Ontario Securities Company we made a profit out of.

Q.—Then you would take some bonds and sell them to the Continental Life? A.—Yes.

Q.—What is the largest profit you have made on bonds that the Ontario Securities Company have sold to the Continental Life? A.—That is on that statement too, the exact figures.

Q.—Cannot you tell me from memory? A.—No. All the items are there which will show the Continental Life, they are all tabulated down there.

Q.—What is the highest rate, do you know, that you have added to the cost when you have been turning them over to the Continental? A.—I don't know, we have not fixed on any particular rate, we have sold them at the market price, whatever the market price has been.

Q.—You cannot tell the market price of Dauphin debentures, it depends on whether you find some person that wants to buy at the time you want to sell? A.—Yes.

Q.—I do not think I would mention market price— A.—There is a market price of debentures, it varies from time to time; if you know about the selling of debentures you would know there is a market price on debentures of all towns.

Q.—Would there be on the Dauphin debentures? A.—Yes, there was a market price on the Dauphin debentures.

Q.—What was the price? A.—4½ per cent. rate I think.

Q.—Would you sell them at the market price to the Continental Life? A.—Yes.

Q.—The Ontario Securities Company would always be ready to sell to the Continental Life at the market rate? A.—Yes.

Q.—It was not at any regular commission? A.—No.

Q.—Charge them whatever the market would stand? A.—Whatever they could buy them elsewhere at.

Q.—Could they buy Dauphin debentures elsewhere? A.—I suppose that would be the only issue.

Q.—How are you going to fix the price? A.—You would have to compare it with other towns of the same size and dimensions.

Q.—How would it do to say the price

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

the Ontario Securities Company was paid was a fair price and let them have them at that price? A.—It was not a fair price, we got them very cheap.

Q.—Why did not the Continental Life buy them? A.—Because I bought them when I was out West.

Q.—Tell me what date you bought the Dauphin debentures, what date did you pay the money for them? A.—When we paid the money I could not tell you; I wrote about them when I was in Winnipeg.

Q.—What was the total issue? A.—$35,000.

Q.—$27,000 you sold the Continental Life was the whole issue? A.—No, $35,000 altogether.

Q.—Did the Ontario Securities Company take the balance? A.—Took all of them, we sold $8,000 to the London Mutual at a higher price than we sold to the Continental Life.

Q.—Then you sold $27,000 of them to the Continental Life? A.—Yes.

Q.—They were arranged for while you were out West? A.—Yes.

Q.—And yet the Ontario Securities Company charged the Continental Life 5 per cent. advance on those bonds? A.—We sold them at 4½ per cent. rate.

Q.—Do you think that is right? A.—It was a good investment for the Continental Life.

Q.—Do you think that is right for the Ontario Securities Company on debentures you picked up when you were out West on business for the Continental Life, to charge the Continental Life 5 per cent. for those debentures you got out West? A.—I think it is fair, if you give them value for the money.

Q.—You think that you as an officer of the Continental Life on a trip out West for the Continental Life, so long as you give the Continental Life value for them when you come back, you think that is right? A.—So long as I give them value for that money, I think I am perfectly right.

Q.—They pay your expenses and your salary, and you sell the thing to them when you come back— A.—We did not sell them at that time but later on.

Q.—When did you return? A.—I returned in June.

Q.—We will see what time you paid the money.

MR. FULLER: September 2nd we paid for them.

MR. TILLEY: Q.—The Ontario Securities Company paid for them on September 2nd, and on the same date the Continental Life paid for those shares.

MR. WOODS: I suppose they were not issued for some time after.

Q.—The Ontario Securities Company never paid out a dollar in respect of them? A.—Yes, they did.

Q.—In respect of these $27,000 of bonds? A.—I do not remember just how the deal was closed, but I know we paid for them.

Q.—I am not questioning but what Dauphin got the money for them, but I want to know whether the Ontario Securities Company paid out a dollar for those bonds of its own money, or those $27,000 of debentures —it could not have done so? A.—If we had them sold before they were issued—

Q.—The Continental Life bought them on the same day your company paid for them? A.—They may have been bought some time before that and only paid for that day.

Q.—Will Mr. Fuller tell me this. What money paid for those debentures, was it the Continental Life money or the Ontario Securities Company?

MR. FULLER: The Ontario Securities Company had to pay for that first before they could sell them to the Continental Life.

MR. TILLEY: Q.—Paid for them the same day?

MR. FULLER: Yes.

MR. TILLEY: And got a cheque from the Continental Life and gave its cheque?

MR. FULLER: They gave a cheque first and got a cheque afterwards.

MR. TILLEY: Tell me why then that transaction was put through the Ontario Securities unless it be simply to make a profit off from the Continental Life?

WITNESS: I suppose that is what the Ontario Securities Company is for, to make money for the shareholders.

Q.—Was the Ontario Securities Company formed to make money for the directors of the Continental Life out of deals put through for that company? A.—No, it was not organized for that purpose.

Q.—That is what, what do you suggest, an incidental object? A.—Yes.

Q.—Just to get a little profit that way—

MR. LANGMUIR: Is that the usual rate that is paid for the purchase of those debentures, municipals? A.—4½.

Q.—No, 5 per cent.? A.—We bought the bonds very cheap.

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

Q.—I want to know if that is the usual rate?

MR. FULLER: I do not think that is quite correct about the 5 per cent.

MR. LANGMUIR: The Continental paid the Securities Company 5 per cent. on the face value of those debentures as an intermediary of the purchase?

WITNESS: We bought them at 4 7-8 per cent. rate—

MR. LANGMUIR: Was there a commission paid?

MR. HOLDEN: No, it is not a commission paid. This is the transaction: the Ontario Securities Company say, "We are not your agents for these bonds at all; we have bought them; they are our debentures; we will sell them to you at whatever price we agree on," but the result was that they got 5 per cent. profit on the resale to the Continental Life?

MR. LANGMUIR: 5 per cent. on the purchase money?

MR. TILLEY: Yes.

MR. LANGMUIR: The usual way to sell debentures, if they pay 4 you buy them at 3 7-8, or you may pay point two or point three and make a profit on them; but is it the usual thing to get 5 per cent. for selling debentures?

WITNESS: It was a big profit, very much larger than we made on some other debentures, but the bonds were bought as I say cheap.

MR. LANGMUIR: It is too large a charge.

MR. HOLDEN: It comes to a little less than 4 per cent.

MR. TILLEY: I think that the transaction should go back of that completely. What I ask Mr. Woods is, how can he justify when he gets debentures out West and brings them down to Toronto, and the money to pay for the debentures themselves comes out of the Continental Life, simply passes out through the Ontario Securities Company,—why they should take anything off the Continental Life?

WITNESS: We could have sold them to other firms at the same price.

Q.—Why should you be selling to your own company debentures that you got when you were out West on their business? A.—If we had the debentures which we had, why should we sell to the Continental Life at a less price than we could sell to other people?

Q.—Supposing you to-day could buy debentures at 97 that are worth 98, would you feel justified in buying them personally, as Mr. Woods, at 97 and selling them to your own company at 98? A.—If the Continental wanted them I would buy them for the Continental Life.

Q.—But the Continental Life wanted these debentures? A.—Not at the time I bought them.

Q.—They wanted them just as much as the Ontario Securities Company? A.—No, we wanted to sell again; at the time I bought those debentures the Continental Life did not want them.

MR. LANGMUIR: What did you pay for those debentures? A.—We bought them at 4 7-8 rate with a small premium on 4 7-8 rate, and we sold them at 4½ per cent. rate.

MR. TILLEY: No, no, the profits that the Ontario Securities Company made by Mr. Woods putting those through them to the Continental Life was 5 per cent. on the bonds.

MR. LANGMUIR: They sold them at 4 7-8 plus 5 per cent. Why was the transaction so involved?

MR. HOLDEN: It is not involved; they bought them at a certain rate and sold them at another rate.

MR. TILLEY: At what rate did you sell them?

WITNESS: At a small premium on 4 7-8.

Q.—Tell me the price you paid, where are the figures?

MR. HOLDEN: Mr. Tilley is arguing it is the equivalent of 5 per cent.; it is a little less than 4 per cent.

A.—Am I correct in my statement?

MR. LANGMUIR: You are perfectly correct if you bought your debentures—I am not talking about the morality of the transaction—but if you bought your debentures at 4 7-8, and you sold them to some other person at 5, that is the usual way to make a purchase and sale?

MR. TILLEY: To pay 4½? A.—Yes.

MR. LANGMUIR: Yes, that is right; but I understood you sold them to the Insurance Company at a profit of 5 per cent. as well.

MR. TILLEY: No, no.

WITNESS: I just want to state that in connection with those debentures: we bought the $35,000 at a rate to earn 4 7-8 per cent. less a small premium, which we paid on this price, as soon as they were delivered we had some sold to another company

at a rate higher than those we sold to the Continental Life; we sold them at 4.40.

MR. TILLEY: Q.—But you sold the Continental Life at 4½? A.—Yes. Those we sold to the other company only netted them 4.40. We afterwards sold from the Continental Life to another brokerage firm at the same price we bought them at, 4½.

Q.—Was the profit you made on that transaction equal to five per cent. on the debentures? A.—No.

Q.—What was it equal to? A.—About 4 per cent.

MR. LANGMUIR: Were they instalment debentures or straight? A. —Straight debentures.

MR. TILLEY: In what month did you buy them? A.—In June.

Q.—The Continental Life at the end of June had $25,000 to invest in cash; at the end of July it had $50,000, and at the end of August $52,000; at the end of September $31,000; October $42,000; November $47,000 and December $35,000. If you had all that money to invest why did not Mr. Woods when he was there put those debentures straight to the Continental Life instead of putting them through the Ontario Securities Company? A.—I do not think we had $35,000 to invest when I bought those debentures.

Q.—But the least you had at the end of any month in that year in cash was $22,000? A.—What month was that?

Q.—That was May; you start in the beginning of the year $43,000, February $51,000, March $54,000, April $62,000, May $22,000, and I have given the other months? A.—What was June?

Q.—$25,000? A.—Look here, when I bought those debentures for the Ontario Securities Company the insurance company was not looking for investments. I bought them absolutely for the Ontario Securities. In September we may have had this money to invest, and we bought those debentures at a profit for the Ontario Securities Company, but the Continental Life did not pay more than the market value for those debentures, that is a price we could have sold them, we could have sold some at a higher price in the market; is there anything wrong in that?

Q.—Do you want my opinion? A.—Yes.

Q.—I think so? A.—If we had not bought them we would have had to buy something else.

Q.—That makes no difference; their agent was in the West, was at the place at their expense, and the company should have got the benefit of the transaction? A.—We did not want it at that time.

Q.—You wanted $27,000? A.—Not at that time.

Q.—However that is the transaction as stated; you had $42,000 at the end of September after you had bought $27,000, of them still to invest?

MR. FULLER: In June there was only $25,000, and you will observe $16,000 of that was in Beeton; that leaves only $9,000.

MR. TILLEY: But you did not have to pay for them till September? A.—In June we did not know what money we would have in September.

Q.—Why did you not make that transaction of the Ontario Securities till September? A.—They were not delivered till that time.

Q.—You were perfectly free when September came when they were to be delivered to give to either company? A.—Yes.

Q.—When September came you knew the money you had, you knew you could have taken that investment, you could have taken the whole issue, and instead of taking the whole to the Continental you take the majority to the Continental and give the Ontario Securities a profit on them—do you think that is a proper transaction? A.—I think it is perfectly proper.

Q.—At any rate you regard the Ontario Securities Company as being perfectly free if it sees a security that it can buy at 60 and can sell to the Continental at 62 to put that transaction through as often as it can? A.—Not unless they are given value for their money.

Q.—Even if it is given value? A.—If it is a good investment, if the Continental Life has money to invest, and the Ontario Securities Company have anything to sell they have a perfect right to buy from the Ontario Securities Company in preference to any other bond company.

Q.—Will you point out any other bonds or debentures you got when you were out West? A.—Only the two blocks, these and the Calgary.

Q.—Tell me any other securities that you assisted in arranging for the purchase of by the Ontario Securities Company? A.—I bought the Chathams,

there were $109,000 of those. Mr. Somers in his evidence this morning I think led you to believe that I was there on a business trip for the Continental Life; I was taking my holidays during that trip.

Q.—I did not understand that from him? A.—I was on a bowling trip and he was with me on my rink, and he bought the bonds that day and paid my own expenses, so that the insurance company had nothing to do with it, and the Ontario Securities made a very fair profit on those.

Q.—Was it sold to the Continental Life? A.—We sold a few to the Continental Life and the balance went through Wood-Gundy.

Q.—On an agreement to divide the profit? A.—Yes.

Q.—Any others you bought? A.—We bought St. Catharines, I think that is all I bought individually; but of course I was interested in buying them all, I am speaking individually; there was not any bought without my knowledge of it.

Q.—And your consideration of it? A.—Yes, as to the market value of the bonds.

Q.—The Ontario Securities' judgment on the transaction was exercised through you to a great extent in connection with all these transactions? A.—I generally fixed the price.

Q.—And that was done by you from day to day as matters would arise? A.—I knew the value of the bonds more than perhaps any other individual.

JUDGE MACTAVISH: Who fixed the price in these transactions for the Continental Life? A.—I did myself.

MR. TILLEY: You fixed it from both sides? A.—Yes, I would decide what the market value of the bonds was.

Q.—You would never have to arbitrate in a case like that? A.—The matter was always submitted to our directors.

Q.—After it was carried through? A.—No.

Q.—Not always? A.—No, never.

Q.—Take the Reliance debentures, they were submitted afterwards? A.—To our General Board, but they were always brought up before our Committee, which is a weekly affair.

Q.—They might be carried through a day or two before and they would come up afterwards? A.—No, they would not be carried through until it had been decided on by the Committee, and then the Board would approve of them afterwards.

Q.—I will put in as an exhibit the list of your directors as furnished to us, and the Executive Committee; you say the Executive Committee would deal with these matters before the transaction would be carried through? A.—Yes.

Q.—The Executive consisted in 1905 of what persons? A.—Hon. John Dryden, Mr. Somers, Dr. Aikens, Mr. Vandusen, Mr. Jackson, Mr. Jones and J. W. Scott of Listowel and myself.

Q.—And the majority of those would be in Toronto? A.—Yes.

Q.—Who would usually meet at these meetings? A.—All except Mr. Scott, he does not always meet, he sometimes comes but not always.

—List of Directors referred to filed as Exhibit 272.

Q.—I understood you to say when Mr. Blackadar was here he told you that the balance of the Atlas Loan special deposit of $3,190 should be taken out of the books and written off? A.—He did not tell me, I think he told Mr. Fuller; I did not speak to Mr. Blackadar at all.

Q.—Is that right, has it been written off?

—Mr. Fuller answers the questions until a change is indicated.

A.—Not off our own books, it was written off the Government statement.

Q.—Why is it not written off your own books? A.—It will be written off to profit and loss at the end of this year.

Q.—Why not make your books at once accord with the return you have made to the Government; according to your statement of last December as amended with your concurrence that $3,190 was written off, was it not? A.—Yes.

Q.—And still is being carried in your books? A.—I have no authority to write it off; we will write it off at the end of the year, and not show it in our statement again. It should be written off, and that will be shown.

Q.—What was the purchase price of the real estate?

—The questions are answered by Mr. Woods until a change is indicated.

A.—$100,000.

Q.—What are you carrying it in your books at? A.—$100,000.

Q.—Exactly? A.—Yes; there is something that has been done on it, that has been added to it since.

Q.—Do you consider the purchase of a $100,000 building is a proper thing for an insurance company at

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

the age of the Continental to be doing? A.—I do.

Q.—Why do you say so, as an investment? A.—Yes.

Q.—What return do you expect to make on your money? A.—I cannot say what we will make, but we will make a very fair investment.

Q.—What have you anticipated you will make? A.—We will make at least 8 per cent.

Q.—That will certainly be a pretty good rate of interest? A.—And I think we will make a good deal more than that; we will make at least 8 per cent.

Q.—Have other insurance companies do you think experienced the same result? A.—I do not think they have.

Q.—You think your result will be more satisfactory than the others? A.—I think we got a bargain on the building.

Q.—By reason of the price? A.—Yes.

MR. LANGMUIR: What are the alterations costing you? A.—About $65,000, but you know architects always add something to it, but that is his estimate. We have been offered a large sum on the purchase price for the building.

Q.—Are you putting three storeys more on? A.—It will be an eight storey building when it is finished.

MR. TILLEY: Q.—I was asking you about the Merchants Life, you were an agent of that? A.—I was Superintendent for a few months.

Q.—Was that just before you formed the Continental? A.—Yes.

Q.—And the Merchants failed? A.—They went into voluntary liquidation.

Q.—They had to be wound up, had not they? A.—I do not think they had to, but that principle was wrong, it was on the assessment system, and I advised the winding of it up.

Q.—So that you knew it was going to be wound up for some time and anticipated it would? A.—They wound it up very soon, they had a meeting and talked the matter over.

Q.—Was there a proposal to re-insure the insured in the Merchants in the Continental? A.—Yes.

Q.—Was that carried through? A.—Yes.

Q.—Did you re-insure any of them? A.—Yes, we re-insured very few, we put them through as a new application.

Q.—They took out policies in the Continental? A.—Yes.

Q.—Were you organizing the new company while you were acting for the old Merchants? A.—No.

Q.—Not at all, not soliciting subscriptions and so on at that time? A.—I do not think so.

Q.—Are you sure about that? A.—Yes, I am sure.

Q.—You did not start that till after you left the Merchants? A.—No, I resigned from the Merchants to organize the Continental.

Q.—And up to the time you had not got your organization in shape? A.—No.

Q.—You had many of the same Board of Directors? A.—Yes, we had quite a number of the old Merchants.

Q.—When you would issue a policy to an old holder of a policy in the Merchants Company would you give him any special privilege or rate? A.—Yes, we made a special rate, we gave them a non-profit policy I think and made a smaller loading for them.

Q.—Why did you do that? A.—Well, there was not any cost in securing the business.

Q.—Was any person paid a commission on it? A.—None whatever.

Q.—None on that business? A.—I do not think so.

Q.—Don't say you do not think so? A.—I am pretty sure there was no commission paid.

Q.—I want you to be more than pretty sure, I want to know whether any person was paid a commission on that business or not, or any part of it? A.—I could not say absolutely without referring to the books.

Q.—What books would you have to refer to? A.—We can find out.

Q.—You do not know now? A.—I do not remember whether there was any commission, there may have been a small commission.

Q.—It was a smaller premium? A.—Yes.

Q. Did you get any commissions on that old business that was written? A.—None whatever.

Q.—Did you issue any policies where you would give a policy of 14 pay life? A.—Yes, I think we did issue a few.

Q.—To whom? A.—To the Merchants' people.

Q.—Merchants' policyholders? A.—Yes.

Q.—At the same rate you were charging other people for a fifteen pay life? A.—I do not think so; we made all the Merchants' Life people a small concession, if they had a policy in the

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

Merchants Life we would give them a fourteen year instead of a fifteen I think. We made them a special rate. I forget now what the rate was, but I think we loaded the rates about 5 per cent. on the Hm.

Q.—It was not a regular 15 payment premium? A.—It woud be a 14 year premium with a 5 per cent. loading.

Q.—Did that bring it to about the same as a 15 payment premium? A. —Pretty near, I suppose, perhaps a little more.

Q.—Would it be more or less, would you figure that out for us Mr. Fuller?

MR. FULLER: Yes, I will have to go over to my office and do it.

MR. TILLEY: We can get the information later on then.

Q.—How many policyholders did you take into your company that way —that is practically giving them a substantial rebate.

Mr. Woods answers the questions until a change is indicated:

A.—Yes.

Q.—Why would you give any rebate to those old policyholders in the Merchants, that was very inequitable to the new policyholders in your company was it not? A.—I do not think so. I suppose we did it at that time—

Q.—Do you suppose, you know why you did it? A.—At that time there were quite a number of the men interested in the new that were on the old Board, and they wanted to protect the policyholders as much as they possibly could.

Q.—Why should the new policyholders in the Continental Life be protecting the old policyholders in the Merchants Life—you understand it was not the directors who were protecting these people to a great extent but the new policyhoders in the Continental Life; why should the directors of the Continental Life be saddling the new policyholders in their company with old friends from the old company? A.—They are not. We had no expense in connection with that business, and the business just came to the office as a matter of transfer.

Q.—Would you have writen those policies if a person had come to your office who was not one of the Merchants Life people? A.—I do not say we would.

Q.—Then you were giving them that— A.—We were making them a concession owing to the fact that they had been insured in the Merchants Life, and as many of them wanted to take Continental Life insurance we made a special rate, we gave them the ordinary Hm. table with 5 per cent. loading on the non-profit plan.

Q.—Were there any profit policies issued? A.—I do not know whether there was any profit policies issued or not.

JUDGE MacTAVISH: Was that a part of the bargain between the Merchants and the Continental? A.—No, there was no bargain whatever.

MR. TILLEY: Just a voluntary act on the part of the directors of the Continental? A.—Yes.

Q.—Was that a proposition that was open to any of the policyholders of the Merchants? A.—Yes, I think we offered it to any of them.

Q.—By circular? A.—I do not remember that. They had to pass a medical examination; we only got a very few of them; if I say fifty it would not be beyond the amount.

Q.—I would like Mr. Fuller to prepare a statement showing how the premiums compare with the 15 year, and what expenses were paid in connection with that? A.—Very well.

JUDGE MacTAVISH: And the Commissions? A.—Yes.

MR. TILLEY: Did you have any correspondence with the Department at Ottawa as to which Act covered your power of investment, the old Ontario Act or the Dominion Act? A.—I think Mr. Fuller did one time.

Q.—I would like to see the correspondence.

MR. FULLER: That was a long time ago.

Q.—I mean lately?

MR. FULLER: No.

Q.—Within the last year or two?

MR. FULLER: No.

Q.—It was decided on in one place?

WITNESS: Yes, but we did not write.

Q.—I notice April 15th, 1904, you passed a resolution that if a death occurred to a policyholder within the thirty days of grace they would pay the claim? A.—Yes.

Q.—Was that the result of some discussion or some question that had arisen as to the liability of the company to pay its policy if death occurred during that year? A.—I think it was, I think the People's Life were having some trouble.

Q.—You decided you would pay it? A.—I wanted to know just where we stood.

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

Q.—And you laid down the rule that all such claims would be paid by your company? A.—Yes.

MR. FULLER: It was to be put in the policy.

MR. TILLEY: I do not think it says so?

A.—We were about to issue some new policies I think at that time, and we wanted to know whether it was the intention of the Board to do that.

Mr. Tilley reads minute referred to, "The matter of payment of claims under policies in the event of death occurring during the thirty days of grace," etc.

Q.—Then you say that was only to apply to new policies? A.—Yes.

Q.—You would not make that rule apply to all your policyholders, you were going to give it to your new policyholders; was it not your intention at that time to make that of general application? A.—I do not think it was; just on the new policies issued.

Q.—It does not say so? A.—That was the intention.

Q.—Then the company will consider the policy in force during the thirty days of grace even if death should occur during that period? A.—I knew we were about to issue some new policies, and that is the reason it was brought up.

Q.—That would be a very fair thing to do, if you are going to treat new policyholders that way, to put all on the same plan, would it not? A.—It might be.

Q.—I was asking you what you thought of it? A.—We did not want to make any alterations in the condition of the old policy, either good, bad or indifferent.

Q.—Shortly after that apparently a claim was made against you on Adam Spavin's policy, do you remember that? A.—Yes.

Q.—State briefly what happened there; he gave a promissory note for his premium? A.—I think he gave two notes.

Q.—He gave one promissory note anyway for his premium? A.—Yes.

Q.—The premium was payable on the 15th October, 1904, without any days of grace? A.—Yes.

Q.—He gave a note which would mature on the 18th October, 1904, tell me why he gave that note and why you accepted the note for his premium before it was due, and the note payable before it was due? A.—I do not know why he gave the note payable at that date, I suppose it was his own arrangement.

Q.—Was it given to you? A.—It was given to our agent.

Q.—The premium was not really due until the 15th November, was it, 1904? A.—He would have thirty days grace to pay.

Q.—And if you took a note from him which matured on the 18th October, three days after the date of the policy? A.—Yes, that was the date he said he wanted to pay it.

Q.—And that note lapsed, was not paid? A.—It was not paid.

Q.—And he died on the 11th November, still within the thirty days? A.—Yes.

Q.—And you at once refused to pay the policy? A.—Yes.

Q.—And if he had not given you any note at all you would have had to pay the policy without any demand? A.—I think we would—Oh, on that policy I don't suppose we would.

Q.—You would have had no defence to that policy at all; here is clause 2 of the policy itself: "A grace of one calendar month," etc. (Reads clause 2)? A.—If he had paid the premium during the month the policy would have been in force, but he did not pay the premium.

Q.—He gave you a note? A.—Which was not paid.

Q.—And then he died before the end of the month? A.—Yes.

Q.—If your rule had been acted on, leaving out the question of law that would be involved, he would have been entitled to his money? A.—He would if he intended to pay the premium, but he did not intend to pay the note, with reference to paying the note———

Q.—He could not have any intention, after the 11th November, and he still had some time within which to pay it? A.—Yes.

Q.—He died on the 11th? A—He refused to pay the note when it was due.

Q.—Regardless of what he had done or refused to do I do not see any contention in the correspondence by you that he had ever refused to pay the note? A.—He did not pay it.

Q.—Is that what you mean? A.—Yes, he did not pay it.

Q—And if he had not given any note he would have had until the middle of November; that policy was for $1,000? A.—Yes.

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

Q.—And you settled it for $250? A.—Yes.

Q.—Do you think that is fair treatment of one policyholder having regard to your general rules and regulations as to other policies? A.—We have never contested any policy in the Continental Life where they pay the premium within the proper time, and we were advised by our solicitors not to pay that claim.

Q.—Of course the solicitor would advise what the law was, he would not advise you as a matter of policy you should not pay it? A.—No, he advised what the law was.

Q.—And he told you the money could not be collected from you? A.—Yes.

Q.—And the reason he told you that was a note had been given which had not been paid? A.—Yes.

Q.—And if he had not given any note you would not have disputed the policy at all? A.—I do not suppose we would.

Q.—But because he gave you a note which he did not pay you disputed the policy? A.—We have paid claims we should not have paid.

Q.—And that is offset by this case? A.—No, two wrongs do not make a right, but we have paid claims which we should not have paid.

Q.—Don't you think this should have been paid? A.—I don't think so.

Q.—Why? A.—Because the man gave the note.

Q.—He was not obliged to give you the note? A.—No.

Q.—If he had not done anything and not given you the note, which you were glad to get I presume, you would have paid the policy, but because he gave you a note and didn't pay it— A.—There is one thing, if we were liable we would have paid it without any hesitation.

Q.—I dare say you would, and there is a question of liability there. It seems to me in view of the resolution you had passed it was a narrow point to take with the man if that is the only objection? A.—That was the only objecion.

Q.—But he still had time within which to make the payment even after the note matured? A.—Yes, if he had not given the note.

Q.—What is the Provincial Agency Company? A.—I know very little about it.

Q.—You know more about it than I do? A.—I don't know as I do.

Q.—You have had more dealings with it than I have? A.—I have had no dealings with it except—

Q.—What was it? A.—They were a loan company; Mr. Coastworth was the solicitor and that is all I know about it.

Q.—Was he interested in it other than as solicitor? A.—Not that I know of.

Q.—What was the business that was carried on? A.—Loan business.

Q.—Loaning money on real estate? A.—I think they were loaning money on house furniture, on registered chattel mortgages.

Q.—How did it come to have business transactions with you? A.—In making the loan they insured the person's life for $1,000 or $2,000.

Q.—Always? A.—I don't know whether they always did, but nearly always, I know very frequently. We got the business for a year.

Q.—And then did you stop it? A.—Yes.

Q.—Why? A.—The business all lapsed in the year and we decided not to take any more of it.

Q.—Was it term insurance? A.—No, not always, some endowment, some twenty pay life—the ordinary plans of insurance.

Q.—Did you give the Agency Company special rates? A.—No, they just got the regular agent's commission.

Q.—Do I understand the Agency Company when it would make a loan to a proper individual would call upon you to take out insurance? A.—That is what I understand.

Q.—And then the man who is borrowing the money on household goods would make out an application for insurance and pay the premium through the Provincial Agency Company? A.—Yes.

Q.—And the Provincial Agency Company would deal with you as an insurance agent? A.—They were practically acting as an insurance agent for the Continental Life. We took their business and allowed them a commission.

Q.—Did the insured pay the ordinary premiums of the Company or more? A.—He paid the ordinary rates to the Provincial Agency, and they handed it over to us less your commission.

Q.—What was their commission? A.—It was 65 per cent., I think graded.

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

Q.—What would those policies amount to? A.—The whole amount?

Q.—No, the average? A.—They would average I suppose about $1,250, some $1,000, some $2,000, and I think one or two $3,000.

Q.—Any of them under $500? A.—I think there were a few $500, but very few.

Q.—Any under that? A.—No, I do not think so.

MR. FULLER: There was one.

Q.—You pay agents both salaries and bonuses?

WITNESS: We pay them salary and we sometimes give a bonus.

Q.—Is there any rule about bonusing? A.—No.

Q.—It is a voluntary matter on your part? A.—A voluntary matter at some months of the year.

Q.—What months? A.—We have no particular month.

Q.—Usually the end of the year to bring up the year? A.—Sometimes in December. I think last year we gave one in June, but we have no special month.

Q.—Usually it will be December? A.—Yes, generally in December.

Q.—And you offered them some special condition for getting a special amount? A.—If they wrote a certain amount of business.

Q.—In the month of December, or before the end of the year? A.—We give them a prize.

Q.—What does the prize amount to? A.—It amounts to $75, $50, $25; we usually give about three prizes.

Q.—Any more than that? A.—I think in one or two cases we have given $100 prizes.

Q.—Any more than that? A.—No.

Q.—Never more than that? A.—No.

Q.—Do you approve of them from an insurance standpoint. A.—It is not a good system but it has always paid us well.

Q.—The system is bad, but the benefit to the Company for a time is useful? A.—Yes, useful.

Q.—But the system is bad? A.—It spurs the agent, and they all like to get a prize even if it is worth ten cents.

Q.—They like it much better if it is worth $75? A.—Yes.

Q.—Do other Companies do the same thing? A.—I cannot speak for them, but I know some of them do.

Q.—It is not a rule that is universally applied? A.—There are very few companies that do not do it I suppose.

Q.—At any rate you do not approve of it? A.—I did not say so.

Q.—As a system? A.—No.

Q.—As a system it should be stopped? A.—Yes, I think all rebating should be stopped and all bonuses.

Q.—That is a species of rebating? A.—I suppose it is, you have to pay the regular commission and the bonus as well.

Q.—And it gives the agent a chance in that last month of the year to rebate more? A.—Yes.

Q.—And that is a chance that is taken advantage of considerably A.—Yes.

Q.—And a lot of the policies issued in December lapse the next year? A. Some of them do.

Q.—More in December than any other month? A.—Of course, it is the largest month.

Q.—A larger percentage? A.—I do not know a larger percentage, but we always have more business in December.

Q.—But a great deal of it lapses? A.—Yes, a large enough amount, anyway.

Q.—Has any loan ever been made to any officer or director of your Company? A.—Not a five cent piece.

Q.—Ever any losses on securities other than the Atlas? A.—None whatever.

Q.—And you say the Atlas will be made good to the Company? A.—Yes,

Q.—How soon have policies in your Company a surrender value? A.—After three years.

Q.—Have any of them surrender value before that? A.—No.

Q.—How is it, then, you have been making policy loans before the policies have been three years in existence? A.—I do not think we have, have we?

Q.—Would not this show it? A.—Mr. Fuller is more conversant with these things than I am.

Q.—Is that right?

—The answers are given by Mr. Fuller until a change is indicated.

A.—No, I think not.

Q.—Would not that indicate it? A. No, that was on Farmers' and Traders' business; it had been in existence more than three years.

Q.—I notice Sao Paulo Light and Power bonds got into your vaults for a time, too?

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

—The questions are answered by Mr. Woods until a change is indicated.

A.—Yes.

Q.—You sold them at a profit? A.—Yes, made a very nice profit on them.

Q.—You, I suppose, treated them as being authorized because the Company was chartered here? A.—Yes, we thought they were all right, and when we were told they were not we sold them.

Q.—Have you had any other unauthorized investments—I am not saying now that is an unauthorized investment? A.—I don't know of any, in fact, we have had none.

Q.—The policy-holders take no part at all in the management of your Company? A.—No.

Q.—They have no right to vote or represent their views in any way? A. By law they cannot, the Act defines that specially.

Q.—You have not thought of changing that? A.—If we got a Dominion Charter we would have no objection to it, but under our present charter we are not allowed by law to have policy-holders on the Board.

Q.—That is a restriction you can very soon get rid of? A.—I suppose we could if the Act were amended.

Q.—Have you made any profit out of stock which has been forfeited by reason of non-payment of calls in your Company? A.—I do not think so.

Q.—You ought to know? A.—Very little. I have bought considerable of the stock just to protect us, and sold it again, but I have bought some at a less price than I have sold it for, and I have bought other at a higher price than I have sold it for in order to protect the Company. I think one of the Directors and myself went through it, and I had bought something over 800 shares and sold it again, and I had only made a little over $100 on the whole transaction.

Q.—Has the money from the purchases come from the Continental Life? A.—No.

Q.—Has the Continental Life ever loaned money on its own stock? A.—No.

Q.—I notice you issued a circular on "The Impairment of Capital," was that isued by your Company? A.—No, we bought some of them; they were issued by a firm in New York. They were written by some New York firm, and a number of young companies bought them. We circulated some.

Q.—I propose to put it in just to show the ideas that are expressed there; it shows shortly the expense of new business being very high, with the old company the old shareholders' money is used to carry that on; with a new company that goes out of the shareholders? A.—It goes out of the capital.

—Circular referred to marked as exhibit 273.

Q.—Your Company has sustained an impairment of capital? A.—Yes.

Q.—To what extent; can you give me the figures year by year? A.—At the end of last year I think it was $63,033.77.

Q.—At the end of 1904, $68,872.68; at the end of 1903, $61,338.93? A.—Yes.

Q.—At the end of 1902, $54,203.21? A.—Last year was the first year we made money.

Q.—I notice you reduce the impairment of capital by about $5,800? A. Yes.

Q.—Was that due to any premiums being paid in on the stock during that year? A.—None whatever, that was out of the earnings of the Company, out of the premium income.

Q.—Do you think the Company has turned the corner now, so that there will be no further impairment? A.—I think so, yes, if this Commission does not hurt it too much.

Q.—Who made the premiums for your Company? A.—Mr. Fuller made the last ones, and Mr. Webb made the first rates we had; Mr. Fuller is our Actuary at the present time.

Q.—Are they made up by competition or as the result of Mr. Fuller's actuarial skill? A.—Mr. Fuller's actuarial skill, I think.

Q.—No competition? A.—I do not think so.

Q.—Are you members of the Life Association now? A.—Yes.

Q.—Probably it is the result of being members there? A.—Our non-profits are all uniform with each other, and there is very little difference in the profit rates.

Q.—Who made up the estimates for your Company? A.—Mr. Fuller. He did not make up the first ones, but he made up the last estimates. I am speaking of the last rates he made.

Q.—Who made the first estimates? A.—Mr. Webb.

Q.—As the result of competition or actuarial skill? A.—He was the Consulting Actuary.

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

Q.—I suppose the estimates are made up by competition? A.—I think they are somewhat high, enough.

Q.—You will admit that? A.—Yes.

Q.—Did you reduce them? A.—Last time, yes.

Q.—Your first one is the rate book "A," the estimates the about the same as the rate book "B"? A.—Yes, that would be the guaranteed you are speaking about.

Q.—No, the estimates; I notice that on an ordinary life your estimated profits are $240 at age 35? A.—Yes.

Q.—Ordinary life at age 35 of the larger companies is $145?

MR. FULLER: I think there are some of the larger companies higher than ours are now.

Q.—Your profits as now estimated on that policy would be $240, whereas they were $390?

WITNESS: A.—Yes.

Q.—On the 20 payment life your profits were estimated under the old book to be $427, and they are now estimated to be $291; and on 20 year endowment your old book estimated the profits at $554, and your present book $415; there could be no justification for those old rates could there? A.—No, I don't think so.

Q.—How long did you continue to use them? A.—Until after Mr. Fuller had been here sometime.

Q.—This last book has only been got out in 1905? A.—Yes.

Q.—Do you mean to say any Actuary ever told you he thought you could realize those estimated profits? A.—Yes, he made up the books of the National Life and some of the others too; he was Assistant Actuary for the North American Life at the time. I was not an Actuary myself, and I got him to make our rates. After Mr. Fuller came he looked them over and thought they were too high.

Q.—It was a long time before Mr. Fuller saw that book? A.—You cannot make a change like that in a week; you get your rate books printed and it costs money to manage a young company for the first few years.

Q.—Is not that a trouble with young companies starting out by estimating profits very high, and probably having their premiums a little lower than the older companies in order to get started? A.—I think their estimates are generally too high.

Q.—And their premiums? A.—The rates are plenty high enough.

Q.—And the estimates are too high? A.—I think for old companies the rates are a little too high.

Q.—What do you say as to the way your estimates compare with other companies now?

The questions are answered by Mr. Fuller till a change is indicated.

A.—I think they are a little lower than most of them.

Q.—The older companies? A.—Yes.

Q.—Do you think these rates you have now will be realized? A.—I have made up the estimates allowing a higher rate of mortality than we have actually experienced in the few years, and allowed 60% of the Hm. mortality in the later years, and it comes out higher figures than that, and sufficiently large to allow a profit to the shareholders in addition.

Q.—I notice your estimate of $415, estimated cash profits 20 year endowment, that the Canada Life was $400 for the same policy, and another of yours $291, Canada Life $304; yours $240, Canada Life $247; so that you are a little lower on some and a little higher on others. Do you think these estimates will be realized to the shareholders? A.—I fancy so, if we do not have any very bad losses on investments.

The questions are answered by Mr. Woods until a change is indicated.

Q.—How has your death rate been? A.—I think it has been as low as any other Company in the Dominion, perhaps lower.

Q.—That is partly due to the Farmers & Traders business you took over? A.—That is a very great factor in the business, although the death rate has been low; on the total amount of business we have experienced a very low death rate. We have always been extremely careful in the collection of lives, we have a good class of medical men, and we have a very good medical director, and so far we have had a very low death rate, which has been quite a help to us of course.

Q.—Then did the old Farmers policies contain automatic nonforfeiture clauses? A.—I don't think so.

Q.—Do your policies? A.—Yes.

Q.—Did you exchange the Farmers Company—? A.—The understanding with the shareholders of the old Traders and Farmers was that they were to receive from the Continental Life an exact copy of their old policy except the change in the name of the Company. They wanted the same policy, the same rate, same conditions as the old policy was. They have exactly the same policy word for word except the change of the name.

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

Q.—You have had a large lapse rate? A.—We had a large one last year, other years it had not been abnormally high.

Q.—Why was it high last year? A.—There was a certain amount of unrest in the country owing to the investigations in New York.

Q.—I think in 1902 the number of policies issued was 1,000, lapses 500; 1903, 1,000, lapses 476; 1904, 1,057, lapses 541; 1905, 1,057, and 631 lapses—did you have just the same number of policies issued in 1905 and 1904? A.—Exactly the same number, but not the same amount.

Q.—In the four years you had 4,114 policies issued and 2,148 lapsed? A.—Yes.

Q.—So that you had about 50% of your policies lapse? A.—Yes.

Q.—Is not that a very high rate? A.—It is not any higher than some of the very large companies; some of the very large Canadian companies have the same ratio.

Q.—50% of their policies lapsing? A.—Of the total business written during the year.

Q.—That would involve considerable loss would it not? A.—Yes, it does.

Q.—When you say lapsed policies, do you include not taken policies? A.—Yes, we put them all in as lapses.

Q.—Supposing a policy is not taken, does the Company pay the medical fee? A.—Certainly.

Q.—Does it charge it up to the agent? A.—Well, we have never done it.

Q.—Are you allowed to by your contract? A.—By our agents' contract, but we have never done it in any one case, we have had very few untaken policies.

Q.—Would not it be rather wholesome to make an agent pay the fee? A.—We have had fewer not taken policies than any other insurance company.

Q.—I was just asking what you thought about that? A.—We have a clause in the contract which allows us to do it.

Q.—So you think it would be a good thing to make the Agent pay the expenses a company is put to when a policy is not taken up? A.—Yes, it is a good thing, and a protection.

Q.—It would make a man a little more careful to see that the applicant really wanted insurance? A.—If you have an agent who sends in $100,000 a year and perhaps only has one or two a year you would not feel like imposing a penalty. We have never done it.

Q.—Taking your expenses, making the assumption that the cost for new business is ten times that of renewal—I suppose that is right? A.—Yes.

Q.—That is usual, is it not, Mr. Fuller?

—The questions are answered by Mr. Fuller till a change is indicated.

A.—That is sometimes taken, but it is not always correct by any means, that is only approximation.

Q.—It cannot be more, of course? A.—It might be more.

Q.—Take it on that basis, your total and general expenses for 1902 to 1905 would be $244,610.91; your new premiums were $146,242.71, and the renewal premiums $301,989.31; if you figure out on the basis of ten to one it would make the expenses for that new business from 1902 to 1905 138.60 per cent. of the new premiums—over 1 1/3 times the amount of the new premiums. On the renewal business during the same year it would be 13.86 per cent. of the renewal premiums. Would you agree with this way, that about 15 per cent. of the renewal premiums is proper to charge up for renewal business? A.—It would be all right for a young company.

Q.—For a company the age of your? A.—Yes.

Q.—If you figured it out that way the cost of new business would be 136.30, so that it comes very near the first way I have mentioned; is that about the result of your calculation, 136 or 138 per cent. for new business? A.—I have made out an average of 130.74.

Q.—And that is what you think is fair? A.—Yes.

Q.—How does that compare in your judgment with what should be the result under proper conditions of carrying on life insurance?

MR. WOODS: It is a little high; it costs too much to get the business.

MR. FULLER: That is an average for the four years.

Q.—You would say it was over 130 anyway for the four years? A.—130.74 is the actual calculation.

Q.—What is it due to, do you think?

—The questions are answered by Mr. Woods till a change is indicated.

A.—I am sure I don't know what is the real cause.

Q.—Do you know how your company compares with other companies about

the same age? A.—Very favorably, I think.

Q.—It is due, I suppose to the high commissions a young company has to pay? A.—Yes.

Q.—As the company gets older should the ratio decrease? A.—Ours is every year.

Q.—Probably Mr. Fuller would tell us what he has for each year? A.—I mean the ratio of expense to premium income.

Q.—You mean the total expenses to total income? A.—Yes.

Q.—Have you compared it by new business, Mr. Fuller?

MR. FULLER: A.—In 1902 the cost was 142.22 per cent. for the new business; in 1903, 127.39; 1904, 126.30; 1905 it was a little higher, 128.52. The last three years are nearly the same.

Q.—So that yours has decreased somewhat on the whole from the first year?

WITNESS: Yes; I was speaking of the total income.

Q.—Your present rate book you say gives surrender values after three years? A.—Yes.

Q.—Your old book gave it after five years? A.—Yes.

Q.—On account of the high expenditure there is now should a Company give surrender values at the end of three years or at the end of five? A.—I think at the end of five.

Q.—You think, as a matter of fact, that the total cost of the policy has not been worked out at the end of three years? A.—I am sure it has not.

Q.—So that the insured is really being allowed a surrender value before his policy has earned one? A.—Yes, I think so.

Q.—Would you favor changing it to five, or would you favor bringing down expenses so that he would have the same interest at the end of three years? A.—The latter would be the best if you can do it.

Q.—Then you give different percentages of the reserves estimated on Hm. 3 on same plan, and 3½ on others? A.—Yes.

Q.—And run from 65 per cent. taking whole life policy, 65 per cent. of the reserve at the end of the third year? A.—Yes.

Q.—And running up to 100 per cent. from the 15th to the 20th years? A.—Yes.

Q.—And ten payment life 66 2/3 of the reserve on the Hm. 3½ at the end of the third year and running up to 100 per cent. at the end of the tenth and following years. 15 payments 65 per cent. on the reserve on the Hm. 3½ at the end of the third year and running up to 100 per cent. at the end of the 15th and following years. Life 20 payment, 66 2/3 per cent. of the reserve, Hm. 3½ per cent. at the end of the third year, and running up to 100 at the end of the 15th and following years. You have a statement here showing all these surrender values and when they accrue, and probably I had better put that in? A.—Very well.

—Statement of Surrender Values filed as Exhibit 274.

Q.—Your guaranteed cash surrender values for all nonparticipating policies are 10 per cent. less than the corresponding value for the participating policies? A.—Yes.

Q.—If there is a mistake in their age under your policy you give the insured the payment he would have paid for at his right age? A.—Yes.

Q.—If he has overstated his age you return him the excess premium? A.—Yes.

Q.—That is not so in some of the policies and I notice you make it in this policy? A.—We always do that anyway.

Q.—In the ordinary life policy you state it, not in the endowment policy, but you give it on the endowment business? A.—It is our custom anyway.

Q.—Your endowment business is about 29.7 per cent. on your total business? A.—I think so.

Q.—And your whole life, 63.7? A.—Yes.

Q.—All others 6.6? A.—Very little term business.

Q.—Nonparticipating business forms what percentage of your whole business? A.—A very small precentage.

Q.—How much?

MR. FULLER: A.—About 10 per cent.

Q.—I suppose your agents are paid a good deal more for the participating?

WITNESS: A.—Yes.

Q.—How much? A.—They get one-third more.

Q.—When you re-insure with another company, do you re-insure on a participating basis or a non-participating? A.—A non-participating.

46th day, June 25, 1906.

Q.—Why do not you take the participating basis? A.—Well, if we are certain the insurance would remain in force the whole term of years it might, but there is so much business lapses it does not pay us to pay the premium.

Q.—In your opinion, it is cheaper insurance? A.—Yes.

Q.—Non-participating business is cheaper than the participating, having regard to the premiums you pay and the profits you get, or do not get? A. —Yes.

Q.—If you were taking out insurance, would you take out non-participating? A.—I have not done so; I have taken out the profit in most cases.

Q.—Under your charter, have you to give 90 per cent.? A.—No, not under our Charter; we are under the Ontario. Under Dominion Law you have to.

Q.—Does not your Charter provide as to giving profits to shareholders? A.—Not any certain amount.

Q.—You have not divided any yet? A.—No.

Q.—But when the time comes you will have to give them what you think is their fair share? A.—Yes.

Q.—Are you keeping individual accounts with your policies in the meantime? A.—No.

Q.—Do you propose to do that as soon as you have profits to be allotted? A.—Yes, we will have to.

Q.—You think that system is necessary to give a proper division? A.—Yes.

Q.—Do you keep your participating and non-participating business separate in your books? A.—No, each policy has an account for itself in the books.

Q.—Can you tell whether your non-participating business pays you? A. —Yes.

Q.—Is not the death rate in non-participating business larger than in participating? A.—It is higher on term policies, I think, than any other.

Q.—But is it not higher as a general rule, on non-participating policies than participating?

Mr. FULLER: A.—We have not found it so, because we have had no deaths in non-participating.

MR. WOODS: You can hardly judge of a young company like ours.

Q.—Should not a company keep its participating and non-participating business entirely separate if it is going to give a fair division of its profits amongst its policy-holders? A.—We are putting in the card system.

Continental Life.
(G. B. Woods, Ex'd.)

Q.—How do you know whether the death losses in the participating business are not much heavier, and that you are not taking away some of the profits from the policy-holders to enable you to make it good? A.—I don't understand what you mean.

Q.—How do you know the death losses in the non-participating portion of your business may not be so high that the Company is really using the participating policy-holders' money in order to make it good, because a company should not do that—the participating policy-holders' money should not be dragging along the non-participating? A.—No.

Q.—How do you know your business, unless you keep it separately, is not sustaining such losses ——? A.—That we know from experience at the present time, we have not had any experience. I suppose as we get larger we would have to keep them separate.

Q.—We find no company that separates their business yet; we have found the individual card system in different companies? A.—We are installing the card system.

Q.—Are commissions higher in Winnipeg, in the West, than here? A.—A little, yes.

Q.—You find that with other companies, too? A.—Everything is higher.

Q.—I will put in your profit and loss statement, Mr. Fuller has attended to the preparation of that? A.—Yes, I know nothing about it.

Q.—I see your expenses for the first year are about four times the first year's margin, that is too high? A.—Yes, I think so.

Q.—Is there any way of your getting it down? That is higher than the average, is it not? A.—Are you speaking of young companies or old companies?

Q.—When you say young companies ——? A.—I mean a company like ours. I think our expenses have been lower than other young companies.

Q.—It takes to the end of the fourth year for a policy to catch up at this rate? A.—Yes.

Q.—And your loss in respect to that item for the year 1905 was $37,492.07; your loading, you say, adjusted; I suppose that means it is estimated as best you can?

—Mr. Fuller answers the questions till a change is indicated.

A.—No, we took the actual premiums and the net premiums.

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

Q.—What is your average loading? A.—About 18.66.

Q.—And there is a gain in respect of the renewal business of $3,778.98. Your expected death losses on all business, $27,724.34, and your actual death losses in that year, $8,633.48, making a gain there of $18,090.85, 32.3 per cent.? A.—Yes.

Q.—Is that a high or low average for a company of your age? A.—Very low.

Q.—It would be low with a company of your age? A.—It should be low, but I do not know of any company that has had any lower than that unless it is only one or two years old.

Q.—And then your annuity claims, there is the usual small loss with respect to them?

—The questions are answered by Mr. Woods till a change is indicated. A.—Yes.

Q.—Gain in interest, $5,144.59. Profit from loss or maturity, $2,230.93. And you have given the items in which those profits are accrued? A.—Yes.

Q.—Then you have rather a large gain in respect of reserves? A.—Ours is high premium business, most of it.

Q.—You say the reserves released were $21,075.76. The surrender values allowed $3,253.85; leaving $17,821.91 profit. I suppose that is because the old Farmers and Traders Company policies had no surrender value until the fifth year. A.—Yes, I think we have more endowment business, I think we write more endowment business than any other young company.

Q.—Then there are your other losses including the Atlas Loan matter, and the general balance written off amounts to $5,352.56. That would leave your total profit for the year $4,022.47, and that would be the first year, I suppose, that your balance sheet would have shown a profit? A.—Yes.

Q.—And you think it will be able to show a profit running along under normal conditions from now on? A.—It will show a good profit this year, 1906. Our expenses at the present time are very much lower than they were a year ago and of course the premium income is larger.

Q.—Who disposed of your capital stock, any person but yourself and the other parties interested in the company? A.—We had some agents, yes.

Q.—I will put in a copy of the prospectus that you issued. I see that you refer to the profitable nature of life insurance conducted on sound principles, and you give the dividends earned by some companies. One company with a subscribed capital of a million pays 20 per cent. dividends; another company, the same size, pays 15 per cent.; another company with $700,000 capital, pays 15 per cent.; another with $300,000 pays 10 per cent. Average dividend paid amongst those four companies, that only means those four companies? A.—Yes.

Q.—It does not mean all life insurance companies? A.—No.

Q.—The average for all would be much less than 15.8? A.—Oh yes.

Q.—The average of these four is 15.8 per cent. How long do you think under ordinary conditions it will take an insurance company established now to be able to pay the 15.8 per cent.? A.—I have not thought the matter out, but quite a number of years.

Q.—You do not say in this book? A.—No. That was got up for selling stock.

Q.—Were you the author? A.—No, I was not.

Q.—I suppose that is fixed again by competition, not by actuarial calculation, the prospectus? A.—I think Mr. Webb did that.

MR. FULLER: That is not a very extravagant prospectus though.

MR. TILLEY: I read the parts I thought most startling, so probably there are not so very many startling things in it.

By MR. GEARY: Q.—Mr. Tilley was asking you about rebating and you, I think, expressed the opinion that it was all due to the agents demand for higher commissions, the expense for new business. A.—Yes, I remember that.

Q.—You rather laid the onus on the agent? A.—Yes.

Q.—Is it not perhaps the company that is fixing that high commission by its strenuous endeavour to increase business? A.—It may be, yes.

Q.—Don't you think it is, as a matter of fact, or do you think it is the agent who is grasping? A.—I think that a great deal of the rebating is due—at least I am sure of it—to the general agents having large renewal commissions. They come in competition for a life policy and if they cannot secure the risk any other way they will give the whole of the first year's premium knowing they won't make

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

anything that particular year on that business, but in order to build up their renewals, and the agent who is trying to get that risk says, Well, if John Smith will allow you 50 per cent. I will have to do it too in order to get the business.

Q.—That points rather to the fact that it is the agent who is to blame? A.—Yes.

Q.—And does not prove your expression of opinion? A.—I don't think the rebating could be stopped without concerted action.

Q.—Let us find out how it begins and what perpetuates it. That would rather point to the fact that it is the agent who demands the higher commission in order that he may rebate. Do you think that is really the case or is it the company who makes him buy the business? A.—I think it is due or caused by the general agents who have been in the business for a large number of years, who have large renewal interests in order to build up their income, they will in many cases allow the whole of the first year's commission in order to get the business.

Q.—You think it is altogether due to the fault of the agent? A.—Oh I don't blame the agent not by any means.

Q.—Wouldn't you say rather it is the company that says to the agent, you must get that business, you have got to buy it and here is the money to buy it with? A.—A young agent, a man who has only been in business for a few years, without a renewal income, couldn't do that, he couldn't give his whole commission away, he would give his whole living away, but the man who has been in the business for a number of years can still afford to rebate the whole of the commission if he gets the renewals.

Q.—It strikes me that the fundamental principle of rebating is the stress for business on the part of the company, that if the company did not push its agent the agent would not do a thing that is so obviously to his disadvantage as to give away his commission. Don't you think something may be said on the agent's side in that regard? A.—There are, no doubt, a good many cases where the head office is pushing the agent for business, and in order to get business they rebate. I think we could admit that readily enough.

Q.—Where are you doing business, through the whole Dominion? A.—We get the large percentage of our business from Ontario, which we find the best field.

Q.—You do find Ontario the best field? A.—By far. We get the cleanest, nicest business from Ontario. We get some business from Manitoba.

Q.—Have you a general agent in Manitoba? A.—Yes.

Q.—How long has he been appointed? A.—This one was appointed a year ago last January.

Q.—How long has the agency been established? A.—I think a year or two after we commenced business. July, 1900.

Q.—You have had a general agent for the Province of Manitoba, established there with offices? A.—Yes.

Q.—A regular branch in fact? A.—Yes.

Q.—Could you tell us how that branch has stood you in cost? It has not paid us so far.

Q.—The expense of establishing a business outside of your own province is very considerable? A.—It is very considerable.

Q.—Don't you think it is better for you and other young companies of the same class to confine your operations to your home field, taking business quietly until you get around the corner? A.—No doubt it would have been far better for us if we had not opened in the other Provinces.

Q.—It comes to this, tnat companies, yours included, are striving a little too hard for business; am I right in saying that we can trace to a certain extent the evil of rebating to that very fact? A.—I suppose, no doubt, to some extent, it is due to that, that all the companies are anxious to get business.

Q.—Not every applicant gets a rebate, of course? A.—No.

Q.—The majority of them do? A.—Oh no, only a small proportion of them.

Q.—A very small proportion? A.—It is hardly fair, because it is the city man, the man who is alive and awake and wise to the fact that he can get a rebate who gets it. The ordinary farmer never thinks he can get a rebate.

Q.—He will, no doubt, now I think. Do you do a business in the city? A.—Yes.

Q.—And you do not as a rule get a full premium in the city? A.—Well, very few. For instance if you want

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

to insure a lawyer or barrister, you could not get him to pay the full premium, not one in twenty. He knows the tricks of the trade.

Q.—Tell me one thing about the Farmers & Traders amalgamation or purchase. You paid out or issued capital stock paid up for a certain portion of the price of the assets. A.—We paid 115 per cent. for the whole of the stock, and then there was some who after they received the money bought our stock at par. Is that what you mean?

Q.—And with a premium? A.—No, without a premium.

Q.—You were selling your stock at a premium then generally? A.—Yes, 125.

Q.—This paid up stock then brought you no premium whatever? A.—Not on that stock.

MR. FULLER: It was sold at 125 premium and an allowance made on the first call. A.—Yes, that is what I said, on the first call.

MR. GEARY: You said on the par value of the stock, not on the premium. In your Annual Report for that year you have an item of $4,625 premium. The stock part of the consideration for the transfer of the Farmers & Traders Loan assets is included in that amount? A.—Yes, I imagine so.

Q.—And commission allowed on the issue of that stock? A.—Not on the issue, on the first call of 10 per cent.

Q.—There was no further commission allowed to anybody on the sale of that stock? A.—No.

Q.—That was for the year 1901? A.—We sold a lot of new stock that year.

Q.—That was included, I understand Mr. Fuller to say, in that and then a cross entry in expenditure for organization expenses $3,000. That is what I want to get from you or Mr. Fuller, how you work it in the item of organization expenses if it was not for paying a commission. A.—All organization expenses there in that year are commissions on stock. There is nothing else.

Q.—Who got the commission on the stock? A.—The agents who sold the stock.

Q.—But your company practically sold the stock in making the deal. A.—That was only a very small portion that the Farmers & Traders people took.

Q.—Then I understand you to say that was included in the organization expenses, $3,000. To whom would that commission go? A.—On the Farmers & Traders stock?

Q.—Yes. A.—There wasn't any.

Q.—You said there was a commission paid on the issue of that paid up stock that was part of the consideration for the transfer to you of the Farmers & Traders assets? A.—There was a rebate or allowance on the first call at par. We allowed them to take our stock and gave them the first call at par.

Q.—But you charged it up, as Mr Fuller says, as commission on the issue of that very stock, and if so I just want to know who got that commission?

MR. FULLER: The man himself would get it in that case.

MR. GEARY: He got it, so that it was not in the 115, it could not have been? A.—The premium on the stock was 25 per cent., but the Farmers & Traders people did not pay a premium on the first call. They got the first call at par.

Q.—They paid a proportional part of the premium, the stock, you say, was issued at a premium? A.—They did not pay any premium on the first call at all. They got the first call at par. On the second call they paid a premium.

Q.—Well, whenever it was paid the stock was issued at a premium and they got an allowance in respect of that? A.—They got an allowance of 25 per cent.

Q.—We have got that quite clear, but I understand you to say, or Mr. Fuller, that in the organization expenses there is a commission to the agents for selling your stock? A.—Yes, but not on that stock, that stock paid no commission whatever.

Q.—Then you did not understand my question, because you answered me that you had paid a commission on that stock? A.—I said we paid a commission on stock we sold that year, but not on that stock. During that year we sold a very large portion. If you refer to the Annual Report of the year before that you will see there is a considerable increase in our stock list.

Q.—The item is all right if you paid no commission? A.—No, there is not any commission on that.

Q.—No commission paid to your company or to you? A.—Absolutely none.

Q.—No premium to get back? A.—Not a 5-cent piece.

46th day, June 25, 1906.

Continental Life.
(G. B. Woods, Ex'd.)

Q.—Nothing for your efforts outside your salary as manager? A.—Nothing whatever.

Q.—Is it Dr. Aikens who is on the board of the Reliance? A.—The Sun & Hastings.

Q.—Is it Dr. Aikens who brought the investment in that company to your notice? A.—Mr. Vandusen. He is on the Sun now and was on the Continental Life. He is the President of the Sun & Hastings.

Q.—He brought it in and suggested it to you? A.—Yes.

Q.—You did not purchase at that time? A.—Not the first time, we did not.

Q.—There was some discussion on your part, was there not, in regard to that? A.—After we had purchased the bonds, after the committee had purchased Sun & Hastings bonds, there was some discussion by the general Board that they did not think we ought to buy any more Loan company debentures, and there was a motion made at that meeting not to purchase any more.

Q.—What became of those? A.—We hold them still. I am speaking of the Sun & Hastings now.

Q.—After that resolution was passed did you purchase any bonds whatever of a similar nature? A.—No, not after that resolution.

Q.—No Loan company bonds, or debenture? A.—No, I don't think so.

Q.—Are you quite sure of that? A.—Not after that resolution, that concluded it.

Q.—Was not objection raised then—I am told that there was—or some discussion on account of there being directors common to both? A.—They said we had lost on the Atlas Loan debentures and Mr. Vandusen made the remark that it was not on account of the Atlas Loan not being a safe institution that it went wrong, it was because the man hypothecated the whole of the assets; then he said, if the Manager of the Bank of England would do the same thing, it might happen in the same way. But after that resolution was passed we didn't purchase any more Loan company debentures.

Q.—Was it not said in your directors meeting that you should not deal in these on account of the coincidence of directors? A.—Yes, some of our directors said, well so and so is on the Board and in this connection we should not buy.

Q.—It was only fair to your company to say what had been said. A.—Yes, and a resolution passed not to purchase any more.

Q.—In view of that very fact? A.—Yes. I think I made a move to second the resolution myself not to purchase any more.

Q.—Was there objection at the time of the second purchase of the Atlas Loan, the one that went wrong ultimately, was there objection made? A.—I think one member of the Board objected.

Q.—Who would that be? A.—Mr. Coatsworth.

Q.—He objected to that purchase? A.—Yes, he preferred the mortgages to the Atlas Loan debentures.

MR. TILLEY: What was the objection to debentures, I am told that the objection was that he preferred mortgages, is that what you said? A.—Yes.

Q.—Mortgages on real estate? A.—Yes.

Q.—Did he object to the Atlas debentures in particular? A.—He objected at the time, yes.

Q.—Was that the occasion of his objection, or did he object to those in particular? A.—He objected to any loan company debentures in general. He preferred mortgages on real estate.

Q.—Was there any objection at that time to the directorate being common or Mr. Wallace being so much interested in Atlas loans? A.—None at that time, no. In fact at that time, to be frank with you, we thought Mr. Wallace was an acquisition to our Board. We thought he was a shrewd clever fellow and it was through me he came on the Board and I thought he would be of some value to us, but he did not prove to be.

Q.—Then Mr. Coatsworth thought it would be better not to have these debentures at all? A.—Yes.

Q.—And it was that idea that was afterwards put through in the resolution that was passed.

Q.—His view is now the view of all? A.—Yes.

Q.—Or at least the majority? A.—Yes.

Q.—And you say that since that resolution was passed there has been no loan company's debentures bought? A.—Not since that resolution, we have not purchased any loan company debentures.

46th day, June 25, 1906.

Q.—The date of that resolution was September 6th, 1905, I think. A.—I could not remember that.

Q.—I think you can accept my statement of that because I made a note of it as being a resolution passed on that date, September 6th, 1905. A.—Yes.

MR. TILLEY: There are some statements that we are to get and we can probably have those in the morning.

(At 4.30 p.m. on Monday 25th June, adjourned to 10.30 a.m. on Tuesday 26th, June, 1906.)

FORTY-SEVENTH DAY.

MORNING SESSION.

Toronto, Tuesday, June 26, 1906.

MR. TILLEY: I put in the copy of the ledger account which has already been marked as an exhibit. Mr. Fuller states he has not had time yet to prepare the statement of information we wanted regarding the Merchants' Life policies. He will have it ready later on and we can verify it by him if necessary. That closes all I have to offer at the present time regarding the Continental Life; but Mr. Somers is here. Mr. Kent desires to ask a few questions.

G. T. SOMERS, re-called.

MR. KENT: Q.—In the course of your evidence you stated that the loss on the Atlas Loan would have been already paid if it had not been that this Commission was sitting? A.—Yes.

Q.—I am at a loss to understand how the sitting of this Commission can have delayed the payment which the directors intended to make of the loss on this Atlas Loan? A.—I wish to explain that. What I wish you to infer is that we would have paid it off during the last few days of this discussion, not that this Commission going to sit was delaying it at this time, but I would have paid it off so as to show you gentlemen that there is no question about it, in fact I mentioned it to some of our directors, that I would personally pay it off in the meantime and get rid of it, simply to show our intentions are genuine, not that your sitting previous to that was going to make any difference to us.

Q.—What I understand is had you foreseen that this matter would have been gone into before the Commission here the amount would have been paid. It appears from the evidence that it was decided as long ago as December, 1904, that the directors would make good the loss? A.—Yes.

Q.—Now you have taken 18 months? A.—1905, Your Honor.

Q.—It is down in the evidence 1904? A.—I think that is the date.

Q.—Some one stated, you or Mr. Woods, that it had been talked over at every meeting?

MR. TILLEY: They then knew there was going to be a loss, and it was a year later they drew up the document? A.—The document of the 15th December, 1905, is the document that settled that we were going to release the Continental Life.

MR. KENT: Anyway the Atlas Loan failed three years ago? A.—Yes.

Q.—And this amount is not yet paid? A.—The balance is not yet paid.

Q.—And I think that might have been left to speak for itself—I would be glad to put a few questions to Mr. Woods.

GEORGE B. WOODS re-called.

MR. KENT: Q.—You look upon the reserves or the funds in the possession of the Continental Life as Trust funds or as capital stock of say a bank, which is under the complete control of the directors? A.—I do not just understand what you mean.

Q.—There are two sorts of trust, one is the trust of an executor, another is the trust as in the case of the directors of a bank, the capital stock of a bank is subject to the control only of the directors; as long as they control it in a reasonable manner they are not liable for any error of judgment they may make. If an executor of an estate makes an error he is sometimes held to be liable although he uses his best judgment. It has never been very clear to me whether managing directors or directors of life insurance companies regarded their reserves as trust funds or simply as the capital stock of the life insurance company, that they were free to administer, say to the best of their judgment, I want your opinion as to whether— A.—We consider them as trust funds.

Q.—In that case do you think that your directors and yourself as managing director were justified in getting up say the Ontario Securities Company, working for that company, di-

47th day, June 26, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

verting to that company the profits which if made should have gone to the Continental Life—is it your opinion you are doing your whole duty to your policyholders in acting in two capacities, which must from their nature sometimes be antagonistic one to the other? A.—If we had not organized the Ontario Securities we would not have made the profits, we would not have bought any debentures, not in the manner we did, so that we would not have made the profit; there would not have been any profit to the Continental Life. There was nothing taken away from the Continental Life for the organization of the Ontario Securities Company.

Q.—Do you consider you are bound to give the whole of your time and talent to the service of the Continental Life Company, of which you are managing director? A.—I do not feel I am bound to give more than a reasonable number of hours each day. I feel I am bound to do that. If I choose to go down in the evening and do a little bit of work for another institution I think I have that privilege, and I might say in that connection, with your permission that I have always felt ever since I commenced to work with the Continental Life that I have not been half paid for the work I have done for them.

Q.—You are not a judge of that? A.—I am the judge in this way, that I could have worked for other institutions and got three times the amount of money, and if I had an opportunity to make a little on the side to help support my wife and family I do not see there is anything wrong in it. We are human, and we all like to make money if we can make money, make it honestly.

Q.—Let us speak for ourselves would you be willing to put your position against the opinion of your policyholders here in the city of Toronto on this question? A.—I would, I would not give two pence if I lost my position to-day with the Continental Life Insurance; I am independent of the Continental, and have always been, and I would not give two pence if I lost my position, because I consider that every hour I have worked for them I have earned more for them than I have received from them. I have told my directors—

Q.—In the absence of any resolution to the contrary effect I have always considered the managing director of a life insurance company is bound to give his whole time to the service of the company, and if he goes dabbling into outside transactions it certainly is against, if not the law, at least the spirit of his engagement? A.—You know what salary I received from the Continental Life.

Q.—It would not make the slightest difference if your salary was only $1,000 a year, there is a right and a wrong; after detaining the profit which you made for the Ontario Securities Company, which after all is simply a Committee of the Continental Life, you ask is there anything wrong about that? I venture to say there would be only one reply to that question from the whole of your policyholders outside of the directors, who form part of that Securities Company. We need not dwell upon it. What rather surprised me was that your salary as managing director of the Continental Life appears to have been increased simply because you had made some good transactions for the Ontario Securities Company? A.—Not at all, sir.

Q.—That is what I gather from the testimony? A.—You did not gather that from my testimony I hope?

Q.—Oh no, you have not heard I suppose what your policyholders' opinion as to these transactions is? A.—No, I have not.

Q.—I have the advantage of you there, and that is why I am asking these questions. I want it to be thoroughy understood that you justify your position in all these transactions, and think that you have done, if not right, at least you have not done wrong? A.—I do not think I have done wrong in anything I have done; I always endeavored to do right.

Q.—We look at these things from different points of view very often? A.—One story is all right, and another is told, and if you look at it from a different view point you get a different aspect.

Q.—This is just a remark I made in my note, "Actions speak louder than words," that is in connection with the proposed payment by the directors of this loss of the Atlas Loan. When this sale was made to Mr. Somers, the sale was made to deceive somebody, will you tell me who it was? A.—That is a pretty hard question.

Q.—First it was intended to deceive the Insurance Department, was it not? A.—Yes, and no; we did not want that to appear in our annual report because we talked the matter over sev-

47th day, June 26, 1906.

Continental Life,
(G. B. Woods, Ex'd.)

eral times and we had arrived at this conclusion, that if it were known to the outside world that we had lost that much money or were about to lose it, it would cripple the company, and probably send it to the wall unless the directors came to the rescue, and put up more money. What we did at the time was that we thought, and which proved to be, and if it had not been for this the matter would have all been paid off and nothing would have been heard about it, and we would have considered we had done what we did in the best interests of our policyholders and our shareholders. I just want to emphasize this fact, that every man on our Board is an honorable man and what they did—

Q.—But Mr. Woods, there is no use giving yourself and your co-directors a good character; either the public and your policyholders are convinced that you are honourable men or that you are not, and the fact that you give them a certificate of character won't change the idea that the public has of these transactions. I consider you missed the opportunity of your lives in connection with the Atlas Loan? A.—In what way?

Q.—When you decided that as directors you were personally liable, when you decided to make payment yourself and indemnify the company, had you made that fact public and stated that although not legally responsible your directors had decided to recoup the company for any possible loss don't you think your company before the public would have stood in a very much higher position than it stands to-day? A.—The public did not know we had made the loss.

Q.—It was not intended that the public should know, and it is so much the worse to-day; the public knows you made the loss, and it knows in addition you have been trying to keep that loss a secret; in the attempt to keep it a secret you have deceived the Government first, the Inpection Department, the Superintendent of Insurance, you have deceived your policyholders, you have deceived the public; the public is not to be considered except as so far as they became policyholders as to this transaction. What do you think is the reflection of a policyholder who became such since the failure of the Atlas Loan, and knew nothing about it, but believed your literature? Don't you think that his opinion of you and your co-directors would be the reverse of flattering? That is one of the things that I ask you if you had learned—you are going to learn it? A.—I have seen a number of the policyholders within the last few days, and they have said nothing but what was good; they think we ought to be commended for the action we have taken in the matter.

Q.—There may be something in the moral atmosphere in this part of the country that I cannot understand; it is true I am from Montreal.

MR. TILLEY: You certainly intend to pay it? A.—Yes.

MR. TILLEY: Mr. Fuller has handed in the statement I spoke about a moment ago, as to the policies of the Merchants Life and so on, and I will file that as an Exhibit. (Filed as Exhibit 277.)

Q.—Assuming this to be correct, as you have no doubt it is, it is a statement made up by Mr. Fuller, the statement shows this, that you issued policies at special rates to the old policyholders in the Merchants Life? A.—Yes.

Q.—Giving for instance a fourteen payment life policy at $42.95? A.—Yes, those figures are correct.

Q.—And fifteen payment life, the premium would have been $43? A.—Yes.

Q.—That is a substantial rebate to the insured, is it not? A.—Yes.

Q.—You give another 14 life at age 25, annual premium $28.80, and the fifteen payment life premium $28.80, the same amount, so that that was a straight fifteen payment life rate? A.—Yes.

Q.—You give another one at age 32, 14 payment life $105.32, annual premium: and 15 payment life premium would have been $104.35? A.—Yes.

Q.—Those are all substantial advantages? A.—Yes.

Q.—Why did you give these people that advantage? A.—We did it, I think, to protect them. They had been insured in the Merchants Life and a number of our directors, as I said yesterday, had been interested in the Merchants Life, and they felt morally bound to do something for them, I suppose.

Q.—Why should the directors of the Continental Life feel morally bound to anything for policyholders in the old Merchants Life at the expense of

new policyholders in the Continental? A.—I do not know, I suppose they were influenced by the men who came in from the Merchants.

Q.—Let me ask you this, was there any pressure brought to bear on them by the old policyholders? A.—No.

Q.—None whatever? A.—I think I am pretty sure the offer was made by the Continental Life.

Q.—Voluntarily to all policyholders? A.—Yes.

Q.—Was it the result of any agitation that had ben comenced against the directors of the Continental Life? A.—There was some agitation.

Q.—What was the cause of that agitation? A.—It was on account of the surrender values of the policies in the Merchants Life.

Q.—Tell me what you mean by that? A.—The Merchants Life, as you no doubt know, was an assessment concern, and the ordinary life policies in the Merchants Life had no surrender value. They went into voluntary liquidation, and Mr. Hyslop, a lawyer here, got hold of one or two of the policyholders and induced them to try and make some trouble with the old directors of the Merchants Life, and it may have been on that account that they tried to fix the thing up in that way.

Q.—Then do you say that the commencement of an agitation against the old directors of the Merchants Life was at any rate part of the reason for issuing policies for them at preferential terms in the Continental? A.—It may have been part of the reason why the offer was made.

Q.—Is not that very improper? A.—It is a rebate on the insurance.

Q.—And a rebate given by reason of some agitation against the directors in respect of something entirely outside of the company, it had nothing to do with the Continental Life, had it? A.—No.

Q.—Here is an agitation against the directors of the Continental Life by reason of something they did before they ever became associated with the Continental? A.—Yes.

Q.—And in order to evade this trouble they give preferential terms to these people who are likely to cause trouble? A.—Yes.

Q.—At the expense of the Continental, not their own expense? A.—Let me say this, when the Continental was first organized, or about to be organized, it was understood that they would take over the business of the Merchants Life on some different plans. After the organization they found that they had more new members of the Board than old members of the Merchants Life, and when the matter was afterwards mentioned these new members said, "No, we will do nothing of the kind, we have nothing to do with the Merchants Life, and never had anything to do with it, and we will not do that, we will not take over the policies of the Merchants Life; we do not mind making"—

Q.—Was the giving of this preference to old policyholders in the Merchants done with knowledge and concurrence of all the directors in the Continental? A.—Yes.

Q.—By a circular issued uniformly to all? A.—Yes.

Q.—Were they all subject to medical examination who are on this list? A.—Yes.

Q.—Sure about that? A.—Yes.

Q.—No person taken without medical examination? A.—No.

Q.—Is the rebate that would be shown here in the case of any particular policy—I have not read the whole list—is the rebate that is given there larger than the rebates that are given in the ordinary way by insurance companies now? A.—No, it is not.

Q.—It is not larger? A.—No.

Q.—You say if the business was offered on the basis of this, treating it as a rebate, you think it would have gone through? A.—I think so, yes.

Q.—A statement has also been prepared as to the cash payments made in respect of the Farmers and Traders business? A.—Yes.

—Statement as to cash payment made re Farmers and Traders business filed as Exhibit 278.

Q.—Were these payments in cash in 1901, the payments that were applied to redeem the note of Messrs. Cargill and Scott? A.—Yes.

Q.—That is Cargill and Scott gave a note on which money raised to pay the Farmers & Traders shareholders? A.—They gave a note to the bank, and the money was released and paid over to the Atlas Loan——

Q.—Or at any rate held there? A.—Yes.

Q.—Held there for the purpose of paying any who take the money and would not take stock? A.—Yes.

47th day, June 26, 1906.

Q.—So that released the note, these payments? A.—Yes.

Q.—And then the stock was transferred to Cargill and Scott? A.—Yes.

Q.—What became of the stock? A.—Afterwards?

Q.—Yes? A.—Well, it remained in their name until the amalgamation.

Q.—Then after the amalgamation what became of it? A.—It was resold and transferred as it was sold.

MR. FULLER: It just vanished.

MR. TILLEY: Mr. Fuller said it vanished, and you say it was used for the purpose of being sold? A.—Mr. Fuller is correct, it vanished in the amalgamation.

Q. I—think the list of the stock as issued under the amalgamation scheme, a schedule of it, is attached to the original agreement? A.—Yes.

Q.—And I will put in a copy of the agreement? A.—Very well.

—Copy of agreement referred to marked as Exhibit 279.

Q.—And that schedule shows exactly how the stock was divided A.—Yes.

Q.—But no benefit accrued to you or any of the directors in respect of this old Farmers and Traders stock? A.—No.

Q.—There was no profit in it at all to you personally? A.—Not to any one.

SOVEREIGN LIFE ASSURANCE COMPANY OF CANADA.

MR. TILLEY: I propose now to take up the Sovereign Life.

Mr. W. H. Hunter appeared for the company.

ADDISON H. HOOVER, sworn, examined by

MR. TILLEY: Q.—You are the President and Manager of the Sovereign Life Assurance Company? A.—Yes sir, managing director.

Q.—And you have occupied both those positions since the company was formed? A.—Since the organization.

Q.—And prior to the organization meeting I suppose that you were what you might call acting manager and President of the company? A.—That office had not been created.

Q.—You were fulfilling all the duties of the position? A.—I was simply Provisional Manager.

Q.—You organized the company? A.—Yes.

Q.—It was entirely your scheme, was it? A.—I organized that, thought

of it, thought out the details and executed them.

Q.—Were any of the other directors that are now associated with you associated with you in the promotion of the company? A.—Yes sir.

Q.—Which ones? A.—Practically all of them.

Q.—They were all Provisional directors, were they? A.—The charter will state the Provisional Board.

Q.—We will refer to the charter here; the company was incorporated by an Act of the Parliament of Canada? A.—Yes.

Q.—In the year 1902? A.—The charter will make that clear.

Q.—You could say that from memory? A.—I believe you are correct if you are reading from the charter.

Q.—And the persons who applied for incorporation were Thomas Dunnett, Robert E. Menzie, Josiah B. King, James Glanville, George W. Clendannan, Edmund E. Sheppard, A. H. Hoover, John T. Hornibrook, John T. Gilmour, Edmund E. King, of the City of Toronto? A.—Yes.

Q.—So that those were the persons that were associated with you in getting up the company? A.—Yes.

Q.—Tell me who of those persons took the most prominent interest in it, or were they all equally interested? A.—The first name Thomas Dunnett became deceased about the time the charter was granted. Robert E. Menzie, Josiah B. King, James Glanville, George W. Clendannan and the others named continued with the exception of John T. Gilmour, who dropped out.

Q.—What time did he drop out? A.—Shortly after the charter was granted.

Q.—Before the organization meeting was held ? A.—I think he did.

Q.—Why did he drop out? A.—Because he was associated in other employment, he was a Government Official.

Q.—He was a Government Official when he commenced? A.—Yes.

Q.—Why did he drop out? A.—You will find his resignation in the minutes.

Q.—Was there any disagreement between Dr. Gilmour and the other directors? A.—None whatever.

Q.—As to the conduct of the company? A.—None whatever.

Q.—Between Dr. Gilmour and yourself? A.—None whatever. The doctor never attended a meeting.

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q.—And found it impossible to give attention to it and dropped out? A.—Yes.

Q.—Then the other parties named remained directors down to date? A.—With the exception of Thomas Dunnet who died, and Mr. Clendannan and Mr. Glanville, and Edmund E. King. Menzie, J. B. King, Sheppard, Hornibrook are now on the present Board and have associated with it since the granting of the charter.

Q.—I see that in the year 1902, December 22nd, the general meeting of shareholders was held to organize, and at that meeting Messrs. Webster, Menzie, Hornibrook, Hoover, Dineen, McClelland, Dixon, R. Shaw-Wood, W. M. German and E. E. Sheppard were appointed the directors? A.—Yes.

Q.—Mr. Wood died and Judge Finkle was appointed for the unexpired term on April 23rd, 1903? A.—Yes.

Q.—And then for the year 1904 the directors were appointed on February 15th of that year; Messrs. Hoover, Hon. W. C. Edwards, Dineen, Menzie, Thomas Baker, Webster, Hornibrook, Sheppard, King, Judge Finkle, Dixon, German, McClelland, E. Gus Porter and Stephen Noxon? A.—Yes.

Q.—I think in the following year they were the same? A.—There have been very few changes, Judge Finkle was a member of the Board up to two years ago when he resigned.

Q.—For 1905 they were the same as for 1904. And then for 1906, Judge Finkle was not a director, otherwise they were the same. Was any person appointed in Judge Finkle's place? A.—I think not, I think that vacancy exists.

Q.—Besides the full Board you have an Executive Committee? A.—Yes.

Q.—That was appointed I think December 22nd, 1902; it consisted of Messrs. Dineen, German, Hoover, Hornibrook, Menzie, Sheppard and Webster? A.—Yes.

Q.—For the year 1904 J. B. King was added and for 1905 it remained the same, for 1906 the same. Besides the Executive Committee you have a Finance Committee? A.—Yes sir.

Q.—That was appointed not at the original organization meeting but in September, 1903? A.—Following the organization meeting so soon as we had money on hand.

Q.—There was no need for it at the beginning; Messrs. Hoover, Dineen, Menzie, Hornibrook and Webster? A.—Yes.

Q.—And the Committee has remained the same throughout? A.—Yes.

Q.—No changes on that Committee? A.—No.

Q.—Had all these gentlemen whose names appeared here subscribed for stock? A.—Yes.

Q.—Had they been presented with stock by you? A.—No sir.

Q.—None of them? A.—Not a dollar.

Q.—No person's stock paid by you? A.—In the commencement perhaps I may say, yes, assisted perhaps.

Q.—What ones? A.—I think that I assisted one man, that was J. B. King.

Q.—How did you assist him? A.—I loaned him the money.

Q.—Was it paid back? A.—Yes.

Q.—How much did you loan him? A.—I loaned him enough to pay a portion, I have just forgotten now, but he was unable to qualify without assistance. He had to hold 25 shares of stock I think.

MR. HUNTER: That loan was money, not stock? A.—I loaned the money and he paid for the stock.

MR. TILLEY: Has that been paid to you? A.—Yes.

Q.—How long ago was it re-paid, about the time the company was started or in the last year? A.—Three years ago.

Q.—Any other shareholder you assisted? A.—No sir.

Q.—None at all? A.—No.

Q.—What about this one (refers to ledger)? A.—That stock was originally subscribed for by me. I transferred it to Sheppard. Sheppard paid for that stock. It is possible I assisted him in the transfer. I had quite forgotten that.

Q.—That is to say the stock of E. E. Sheppard appears to have had $500 paid on it when you transferred it to him? A.—That is right.

Q.—So that it still stands at that? A.—Yes.

Q.—That indicates he has not paid anything on his stock? A.—That is paid up, if I assisted him it has all been repaid.

Q.—Re-paid to you? A.—Certainly, and he holds it in his own name.

Q.—I am asking you whether he paid you money for that or whether you were making a present of that

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

stock to your directors? A.—No sir, not a dollar. No director of this company ever received his stock without paying for it in full, not only the par value but the premium upon that stock. He paid for it just the same as any other shareholder of the company; that is to say at the time the stock was sold, subscribed for,—we advanced that premium three different times; the first about $500,000 was sold at a premium of 25 per cent.; then we advanced the stock the next quarter of a million to a premium of 33 1-3 per cent., and when $750,000 had been sold we advanced the last quarter of a million to a premium of 50 per cent. Every man subscribing from the inception up to the time the stock was advanced paid these respective premiums. The directors every one of them including myself, paid the premium of 25 per cent.

Q.—And then subsequently you paid the premium of 33⅓ per cent., did you? A.—On a portion of my stock, I think so.

Q.—The charter provides that the corporate name shall be The Sovereign Life Assurance Company of Canada? A.—Yes.

Q.—There has been no change in that name, you have never altered the name? The Provisional Directors of the company were to be the persons named and any others who would join, but I suppose those constituted all the Provisional Directors, there were no others came in afterwards by virtue of the clause in the Act which allowed them to associate other people with them as Provisional Directors? A.—I think there were; I think we added to the Provisional Board. You will find them there in the minutes.

Q.—I see Hon. Peter McSweeny was added as provisional director? A.—Yes.

Q.—Did he continue to act as director? A.—No.

Q.—Why not? A.—He did not qualify.

Q.—Did he take any stock? A.—Under the charter requirement a man had to pay for 25 shares of stock, and he did not do it.

Q.—Was he appointed a director with his consent? A.—Oh, yes, provisional director.

Q.—But he never took the necessary number of shares to qualify him as a director? A.—No.

Q.—Walter Scott who became a provisional director, did he continue? A.—No.

Q.—Why not? A.—It was a matter of finance; he lived too far away.

Q.—The publisher of the "Regina Leader"? A.—We determined that our Board should be located as near as possible to the City of Toronto.

Q.—Why was he put on? A.—At that time?

Q.—Yes? A.—Because he became a subscriber I think for 50 shares of stock.

Q.—What did you put him on the prospectus of the company for if he was not going to be a permanent director, or did not choose to be? A.—You can understand that in promoting a company like the Soveriegn Life it was quite important to have associated with us some persons who are known, he was well known in the West.

Q.—What association had he with you except that his name was to be on the prospectus? A.—We thought in the inception of the company he would continue, but it was a matter of finance.

Q.—Did you get many subscriptions for stock out in the West? A.—We determined it was too expensive.

Q.—Did you get many subscriptions for stock? A.—We have subscriptions for stock from the Atlantic to the Pacific.

Q.—Did you get many there? A.—In his particular locality, the blue book will show the names of all our shareholders.

Q.—What will you say about it yourself? A.—Repeat your question again.

Q.—You know what the question is? A.—I am not trying to evade it.

Q.—You appear to be; you are wasting time instead of answering the question; did you get many subscriptions for stock in his locality? A.—Only a few.

MR. HUNTER: And those subscriptions were a year or two after that? A.—Those subscriptions were secured after the prospectus.

MR. TILLEY: Q.—Did you discontinue this prospectus? A.—I think we did his name.

Q.—Did you ever print any other prospectus? A.—No, but the name of the Provisional Board disappeared at the organization meeting.

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q.—They did not disappear from the printed literature that was being circulated to sell stock on? A.—Perhaps not.

MR. HUNTER: You sold the stock on the report of the Provisional Board that was printed.

WITNESS: At the organization meeting the Provisional Board made a printed report.

MR. TILLEY: Q.—Let me have a copy of the printed report? A.—It was a report of the Provisional Board that sold stock. You have one in the minutes entered at full.

Q.—Typewritten? A.—Written by pen and ink extended in full in the minutes.

Q.—Is there such a document as a printed copy of the report? A.—Yes. There are lots of them, I think.

JUDGE MACTAVISH: He says there are many copies still in existence? A.—I think I can find one in my private desk, and I will undertake to get one during the luncheon hour.

MR. TILLEY: If you are sending for it I would like you to send for everything else that was used in the way of a prospectus for the getting of stock subscriptions? A.—Very well.

Q.—Hon. William Templeman, Senator, Victoria, B.C., he was a provisional director, did he intend to continue? A.—I do not think so.

Q.—Did he ever subscribe for stock? A.—No sir.

Q.—Why was his name put on there? A.—Because he was a representative man in the West.

Q.—Representative of what? A.—A well known man.

Q.—Why should the name of a well known man go on here if he was not connected with the company? A.—He had been associated with me, a member of a company I belonged to formerly, and I knew him.

Q.—What company? A.—The company I used to represent in this country, the Covenant Mutual; he was a policyholder in that company, and a personal acquaintance.

Q.—Did I understand you to say he was anything more than a policyholder in the Covenant Mutual? A.—No.

Q.—He was a policyholder, in the company you were formerly connected with? A.—Yes, I knew him personally.

Q.—His name goes on; Charles H. Spencer, capitalist, London, is added as a provisional director? A.—Yes, he subscribed for stock.

Q.—Did he pay? A.—He paid for his stock and withdrew.

Q.—Never became a permanent director? A.—No, he never attended a board meeting.

Q.—Did he consent to his name being used here? A.—I only think he remained with us about thirty days, and withdrew; we refunded the money. I hold his stock to-day which he paid for.

Q.—Did he consent to his name being used here? A.—Yes, because he paid for the stock, he bought the stock on the distinct understanding that he would be a director.

Q.—Josiah B. King, Grand Secretary of the Independent Order Oddfellows, he continued? A.—Yes.

Q.—Alfred Gifford, fruit grower, of Meaford? A.—He failed to make good upon his stock subscription. I wish to correct that. He failed to subscribe for the necessary amount of stock; he was not eligible.

Q.—Was it intended that he should be a permanent director of the company? A.—Yes, he had subscribed for the necessary stock.

Q.—Was that arranged with him, that if he would subscribe for the necessary amount that he would be a permanent director? A.—Certainly.

Q.—That would be arranged by you, I suppose? A.—Well, yes.

Q.—The same thing with these other gentlemen, I suppose? Was it the idea that Senator Templeman should be a permanent director for instance? A.—I don't think so.

Q.—That was just to be on the prospectus? A.—I think so.

Q.—Was Spencer to be a permanent director? A.—Yes.

Q.—He was promised that if he would subscribe for the stock? A.—Yes.

Q.—Then William M. German, K.C., M.P., Welland? A.—Yes, sir, a present director.

Q.—He continued as a director? A.—Yes.

Q.—E. Gus Porter, M.P., Belleville? A.—A present director.

Q.—Then the capital stock of the company was to be one million dollars and section 4 reads this way: (Reads Section 4.) That section covers the amount that must be subscribed before you could organize? A.—Yes.

Q.—$250,000 of the stock must be subscribed and 10 per cent. paid. Did you subscribe for stock? A.—Yes.

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q.—Did you pay the 10 per cent? A.—The amount of money, I think so, yes sir, otherwise we could not organize.

Q.—Do you know whether you did or not? A.—I am quite sure we did. We would not have organized if we had not. Here is the provisional report.

Q.—Did you pay the 10 per cent. on $250,000? A.—Yes, $25,000.

Q.—When did you organize, the 22nd December, 1902? A.—Yes.

Q.—How long before that had the meeting been called? A.—Before we organized?

Q.—Yes. That is this section provides that you must have the subscription for stock, you must have the 10 per cent. paid and then you call a meeting? A.—Yes, well, we had it at the time the meeting was called.

Q.—Did you have it when the notices were sent out calling the meeting? A.—I think so .

Q.—Probably your bookkeeper will show us where the 10 per cent. paid is indicated on December 22nd.

MR. ALLEN: It is indicated in the Sovereign Bank book.

MR. TILLEY: You produce a Sovereign Bank book commencing 1902. It is not shown in the bank book.

MR. HUNTER: Unless you add it up.

MR. TILLEY: One would expect to find it in the cash book up to December 22nd. Probably Mr. Allen will look there. (Cash book referred to.) On December 22nd, at the end of the meeting on that date you had about $30,000, Mr. Allen says, that had been paid in? A.—The books state the facts.

Q.—And was that standing then at the credit of the company in some chartered bank in Canada? A.—It had been paid in to a chartered bank.

Q.—This section says, "As soon as $250,000 of the capital stock have been subscribed and 10 per cent. of that amount paid into some chartered bank in Canada?" A.—Yes, that is correct.

Q.—Then you call a meeting. Was it then in the chartered bank? A.—It had been paid in.

Q.—And paid out, some part of it? A.—We were using a portion of that money in the employment of agents to sell our stock.

Q.—So you construed that to be so long as it passes through the bank? A.—Yes.

Q.—Then Section 5. Prior to that, the directors' qualification is to be what? A.—25 shares.

Q.—And all calls must be paid? Now then Section 5 is: (Reads Section 5.) Was that section complied with? A.—Yes.

Q.—Literally? A.—I think so.

Q.—That is to say no shareholder had paid in less than 10 per cent.? A.—Quite true.

Q.—Had you paid in 10 per cent. at the time of license? A.—I want to be sure about that. The books will show that.

Q.—What date did you get the license? A.—The license was granted on the 29th January, 1903. You have the Charter here and it speaks for itself.

Q.—You see here, "provided that the company shall not commence the business of insurance until $62,500 of capital stock has been paid in cash into the funds of the company. Provided further that the amount so paid in by any shareholder shall not be less than 10 per cent. upon the amount subscribed by such shareholder." That was January, 1903. I want to know whether that section as to each subscriber for stock having paid in 10 per cent. was complied with? You must have submitted proof of that section having been complied with to the Department at Ottawa. A.—That was a matter arranged and attended to by the solicitor entirely.

Q.—Have you copies of the papers submitted to the Department regarding that? A.—I think not. They were all sent to the Department and filed there.

Q.—Then we will have to take the original? A.—We complied with all the requirements of the Insurance Department at that time.

Q.—In the way of filling out forms? A.—Yes.

Q.—Now I want to know whether the forms were correct. Had every shareholder that subscribed for stock paid 10 per cent. on his stock? Had you paid 10 per cent. on your stock? A.—Well, I had on part of it.

Q.—Had you on the whole of it? A.—I don't think so. My individual subscription was quite a large one. I don't think I had paid it all up. I am quite sure I had not.

Q.—Then when you speak of these payments, do you say they were made in cash by the company's funds? A.—No, our method was to sell the stock, one call of $25 per share. Well, I

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

will say, the first stock we sold $20 per share and at a premium of 25 per cent. That made $5 premium and $20 per share, $25. $20 plus premium of 25 per cent, $25. But a very little of the stock was sold. Very little. We found that we would require a larger premium and we increased it to $25 a share with 25 per cent. premium which made the premium $6.25 instead of $5. $31.25. So that there was a premium there of $6.25.

Q.—That is all very well, but I want to know about compliance with this section of the Act. Do you say that the money was realized and paid in on stock or was the money raised say by discounting a note? A.—Then I understand what you are coming at and I will give you the information quite readily. We took notes; we endeavored to get as large a cash payment as we could and then we divided up the payment into 3, 6, 9 and 12 months with interest at 6 per cent. These were notes. Now we found in order to secure our license—

Q.—Let me ask you one question first. Those notes were not payment in cash were they on the stock? A.—They were at the time we got the money.

Q.—Were the notes themselves as received payment in cash as the Act requires both in Section 4 that we referred to before and Section 5.? A.—I was just going to tell you what we did.

Q.—I am not asking you what you did with the notes for the present. I want to know whether you contend that when a shareholder gave you a note in payment on his stock you treated that as a payment in cash? A.—We singled out notes enough to make good.

MR. HUNTER: You are not answering his question. You did not treat them as cash; why not answer the question?

MR. TILLEY: Why not answer it as Mr. Hunter says, you did not treat it as cash? A.—Certainly not. If a man gave a note we couldn't get that money until it became due.

Q.—Then that is not payment in cash. Then what did you do? A.—We took enough of the notes to produce the required amount of money that we needed and the directors, I think five of the directors of the company went to the bank, the Imperial Bank, and gave their private note to the bank and secured $29,000 without a scrap of security of any kind.

Q.—Do you say that with pride Mr. Hoover? A.—The company did not borrow the money; the directors borrowed the money on their private note and gave it to the company without an atom of security, and when these notes were paid in by the shareholders who had subscribed for this stock it was turned upon that private note until it was paid.

Q.—The notes given by the shareholders were not payment in cash? A.—These particular notes that we took out, but we anticipated it and advanced the money.

Q.—Then in order to put the money in the bank the directors discounted their own note in the bank? A.—Their private note, yes.

Q.—So that the money in the bank was not cash received from shareholders on their stock but was the proceeds of a discounted note? A.—Well, that is true, the proceeds of our private note.

Q.—Can you tell me why that was not shown in the copy of the minutes that you supplied to the Commission? A.—There was never any agreement entered into on behalf of the company. There was no security arranged of any kind to the Board. They simply signed a note to the bank for $29,000 and got the money and when these notes were paid they were applied upon that until it was wiped out. A perfectly legitimate transaction and we would do the same thing again.

Q.—I am not saying whether you would do the same thing again or not, Mr. Hoover, but I would rather question the thing being legitimate. Why did you not show that in the minutes? A.—It was not necessary.

Q.—The minutes that you copied? A.—It was not necessary. The company did not borrow the money.

Q.—You sent to the Commission what purported to be copies of your Directors' minutes?

MR. HUNTER: From the date of the license? A.—From the date of the license.

MR. TILLEY: I will satisfy my learned friend on that point yet, if he will wait a minute. Why did you start with the date of the license? A.—Give me the document.

Q.—You have your answer ready on that? A.—Because the circular sent out by this Commission stated that information was to be furnished from

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

the date of the company's license. In compliance with your circular, which states: "In all cases it will be understood that the information asked for is to cover year by year the last fifteen years' operations by the company, if the company has been so long doing business in Canada under Dominion License; otherwise the whole period during which the company has been operating under such Dominion license."

Q.—So you say because that says doing business under Dominion license you think that justifies you in eliminating the organization meeting except so much of it as you want to show us? A.—We complied with what you required. When you said you wanted our Minute Books we sent them up to you.

Q.—You gave us the by-laws, skipped everything that related to Mr. Hoover's arrangement with the company and then started the Minutes and then did not give us the minutes right. Here is page 51 of the Minutes referring to this particular note. "The President produced for the examination of the directors the note signed by the Executive Committee and discounted at the bank to enable the company to complete its deposit, which was now fully paid; and after examination by the directors the said note was destroyed." That is on page 51, in the part that you are supposed to have copied and you have left it out. Now why did you leave it out? A.—It may have been inadvertently done by the stenographer.

MR. HUNTER: I think I directed that to be left out.

MR. TILLEY: How is it that we did not hear about it until I mentioned it now? A.—Mr. Hunter says he gave directions to leave it out?

MR. HUNTER: That was a private note of the directors.

MR. TILLEY: That is in the minutes that you are supposed to have copied? A.—Well, he had charge of the copies.

Q.—Do not pass it back and forth. Mr. Hunter was acting with you, I suppose? A.—I have not seen those minutes.

Q.—Did you discuss that with Mr. Hunter? A.—No.

Q.—You left it to Mr. Hunter to decide what should be left out? A.—Oh no, no. We placed a girl at work to copy these minutes and if she has omitted that why I have no knowledge of it.

MR. HUNTER: I told the stenographer not to copy that. I thought that was a private note of the directors.

A.—Purely an error. Unintentional on my part.

MR. TILLEY: You did not do the copying did you? A.—No.

Q.—Wait until we see whether that is the limit of it. Probably Mr. Hunter will take responsibility for the other too. There is what you supplied us with as being a copy of the by-laws? A.—Yes.

Q.—And the by-laws in the book preceding the date when you commenced to copy; the day you got your license? A.—The by-laws were adopted at the organization meeting.

Q.—But you did not give us a copy of the minutes of the organization meeting? A.—No, we did not.

Q.—But you did give us the by-laws and then you skipped matter that intervened between the by-laws and the date where you commenced to copy. Why, do you know?

MR. HUNTER: May I say a word there?

MR. TILLEY: Certainly.

MR. HUNTER: The by-laws were called for in answer to another question. Question 6, under organization and administration. "Furnish copies of all by-laws and resolutions of the company." So the by-laws were given specifically as by-laws. I drafted the by-laws and I found when I came to see it that there was one clause that was not part of the by-laws.

MR. TILLEY: So you left that out?

MR. HUNTER: Certainly. That was an error pure and simple in copying the by-laws into the Minute Book.

MR. TILLEY: No. 5 on page 21 reads this way: "The Manager if a duly qualified shareholder, is eligible for election as a director of the company, and if so elected shall be known as the Managing Director. The Manager shall receive a salary of $2,500 per annum and also a commission or renewal interest of $1 for each $1,000 of insurance in force at the end of each year, the said commission or renewal interest to be payable annually to the said Manager, his executors, administrators or assigns, as long as the said insurance remains in force." Now this last part as to the salary of the Manager, which did not refer to you in particular, because you were

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

not then Manager, any person else could be Manager—that which is in the by-laws at page 21 of your book is left out of the by-laws sent to us? A.—Well, that is another omission.

Q.—By direction of Mr. Hunter? A.—I have no desire to conceal it. I will justify that contract.

MR. HUNTER: That I considered no part of the by-law.

A.—I can justify that contract.

MR. TILLEY: Mr. Hoover, just let me point out that in all the material you sent us, from beginning to end there is not a suggestion that you had such a contract with the company until we sent for the original books? A.—You did not ask for it and we did not give you anything except what you asked for.

Q.—You will find that we asked for it in many different ways.

JUDGE MACTAVISH: Is it the fact that no information was given as to the agreement between Mr. Hoover and the company?

MR. TILLEY: Absolutely no information was given to us respecting Mr. Hoover's agreement between himself and the company. Where is it referred to in the by-law it is omitted in the copy and not a word of information was got from the returns we received until we sent for the original books by reason of what we thought were suspicious appearances in the returns that was sent us.

JUDGE MACTAVISH: Do you think, Mr. Hoover, that that was a compliance with the circular? A.—Well, my solicitor advised us that we should start at the date of the company's license. The contract is entered at length in the Minute Book. At the organization meeting my contract was read to the shareholders, read to the Provisional Board and adopted by the shareholders, and entered at length in the Minute.

Q.—But in your opinion was the return made to the Commission a compliance with the requirements? A.—Oh yes, because we antedated what you asked for.

Q.—In reference to salaries and commissions, you were asked to furnish a statement showing by name all the officers, directors and agents of the company? A.—We did so.

Q.—And the salaries, commissions, or other remuneration received by or granted to each? A.—Yes, sir.

Q.—Did you do that? A.—Yes, sir, here it is.

Q.—Next, "produce copies of the by-laws or other authority for the payment of such salaries, commissions or other remuneration." Did you do that? A.—Yes, sir, so far as I knew personally.

Q.—Then where is that contract? A.—Well, I have made the explanation that my solicitor ruled that that was not a by-law.

MR. TILLEY: Not to be complied with? A.—Not a by-law.

Q.—And it is not the authority for the payment of the money to you? A.—There has been nothing concealed from you so far as I am personally responsible for. There has not been any crooked transaction done with this company from start to finish. It is open and above board.

JUDGE MACTAVISH: It is too early to protest yet, Mr. Hoover. A.—You won't make any capital out of that, Mr. Tilley, because I can justify my contract, and if I had it to do over again I would make the same contract.

MR. TILLEY: We are not dealing with the contract. I am bringing out now the extent to which you seem to be pleased to let people know about it. We will just put it that way and pass on. Here is another portion of the Minutes on page 40: "The auditors also reported that the advance of premiums on capital stock of the company to 33 1-3 per cent. did not appear to have been ordered by the directors. The Manager was instructed to refer the auditors to the previous Minute Book of the Board at pages 3 and 31?" A.—Yes.

Q.—That was left out of the Minutes? A.—3 and 31?

Q.—No, the resolution was left out of the Minutes because that resolution apparently would lead us back to another Minute Book? A.—No, no.

Q.—Why was that left out?

MR. HUNTER: That I cannot tell.

A.—That is purely an omission of the Secretary in writing the Minutes.

Q.—Who was the Secretary? A.—At that time I think Mr. Allen. He can justify that transaction.

Q.—Is that all Mr. Allen's copying? A.—Yes. This was an unintentional omission. There is not a thing wrong with it.

Q.—I am not saying there is. But I am pointing out that that is the only resolution in the documents that we get that would have shown us that there was a previous Minute

47th day, June 26, 1906.

Sovereign Life,
(Thomas Allen, Fx'd.)

Book, and that is left out? A.—Well, you have it.

Q.—We have it because we sent for it? A.—Well, let us see what this amounts to? Where is it?

Q.—The previous Minute Book? A.—Yes.

Q.—Very well, I will take it up with you now. We will put this one back for the moment? A.—No, we will read this. This is a correction of that.

Q.—I do not care anything at all about the item of news that is in that. I am simply saying that that would have referred me to this Minute Book which I would not have got otherwise. I am not criticizing the resolution or saying that the premium was not authorized or that the minute in the book is not a proper minute. I am saying that that minute would have pointed me to this book and that is the only minute in the whole book that would have done so? A.—Let me explain this. There is nothing in it. It reads this way: "The auditors pointed out that the transfer on October 7th, 1902, of 50 shares of the capital stock of the company by C. Norman Spencer to A. H. Hoover does not appear to have been approved by the Board." Now we sold some stock to Mr. Spencer—

Q.—You persist in trying to get into a long explanation that I do not care a snap of my fingers about. I am simply pointing out to you that that resolution by specific reference carries us back to this previous Minute Book, and that resolution was in the portion of the minutes that you were supposed to have copied, and was apparently on that account left out? A.—No sir.

JUDGE MACTAVISH: Why was it left out? A.—Why, the Board had neglected to approve the transfer of this 50 shares of stock and the auditors asked to know why that transfer had not been approved. It was corrected here at this meeting.

Q.—Do you understand my question, Mr. Hoover? A.—No sir.

Q.—Why was this left out of the return you made to the Commission? A.—Why was this minute book?

Q.—No, that minute. We have it now and it makes very little difference, except that it is interesting to us to know why it was left out? A.—Well, I can only make the same reply, the same answer, it was not intentional on my part.

Q.—It was unintentionally done? A.—Unintentionally.

MR. TILLEY: You did not do the copying? A.—Let me explain the transaction and show that it does not amount to anything.

MR. HUNTER: He is not interested in the transaction, Mr. Hoover.

MR. TILLEY: I am glad Mr. Hunter appreciates that point, if you do not, Mr. Hoover? A.—There is nothing in it

Q.—Now, Mr. Hoover, the previous Minute Book; did you ask me to take that up with you now? A.—I am prepared to spend a day or two with you.

Q.—Whose writing is this? A.—I think that is the stenographer in the office.

Q.—Which stenographer? A.—That is a long time ago. She is not in our employ.

Q.—Let us pass on a few pages and see if we can find some writing done by a person still in your employ. Take page 30? A.—That is Mr. Allen's.

Q.—Page 28, Mr. Allen? A.—I think so.

Q.—Then, if you will step out of the box for a while, I will ask Mr. Allen a few questions.

THOMAS ALLEN, sworn: Examined by MR. TILLEY.

Q.—You are the Secretary of the company? A.—No, sir, I am just the accountant.

Q.—Have you been with the company since it was organized? A.—Yes sir.

Q.—Are these minutes which are in the provisional directors minute book in your writing, looking now at page 29? A.—Yes.

Q.—Pages 30 and 31? A.—Yes.

Q.—Tell me why pages 32, 33, 34, 35, 36, 37, 39 were left blank? Do you remember anything about it? A.—No, I don't remember just exactly why that was done.

Q.—We turn to page 40 and we find that page 40 purports to start with minutes as it were in the middle of a meeting. There is no heading to say Minutes of a Meeting held at such a date, so and so present, but certain resolutions are put on the book and it is brought down and at the end is marked "Approved, signed Hornibrook, Chairman of the Executive Committee. Signed by A. H. Hoover, Managing Director, December 15th,

47th day, June 26, 1906.

Sovereign Life,
(Thomas Allen, Ex'd.)

1902." Everything at the end of the meeting is signed so that any sort of resolution or agreement of any nature or kind could be put in at the commencement of that and would appear to be perfectly regular and proper. Now what is wrong about it?

MR. HUNTER: As to this I would like to point out that nothing could be put in there because it is signed. That was intended for the by-laws to be copied in, and the man was too lazy to copy them in twice, once into that and once into the new book.

MR. TILLEY: Mr. Hunter refers of the Minutes of the previous meeting under "the said by-laws are as follows."

MR. HUNTER: The minutes of the same meeting, and they should have been inserted there. It is the continuation of the same meeting.

MR. TILLEY: How often did the provisional directors meet? A.—I think once a month.

Q.—Can you say why page 41 is blank? A.—I don't know any particular reason.

Q.—You understand that in the new Minute Book of the company started after the organization meeting, that a general resolution was passed affirming everything that appeared in this book, you understand that? A.—Yes.

Q.—Is that a proper way to keep a minute book? A.—I never kept one before.

Q.—You did the writing? A.—I did. I copied the writing.

Q.—You ought to be the one to know. Do you tell me that on page 40 is the ending of the meeting that commenced on page 30? A.—I should judge it was.

Q.—Can you say it was? A.—I cannot see exactly where you have your hand.

Q.—You may take the whole book? A.—In regard to this minute here, pages 30 and 31, the minutes are complete and signed.

Q.—Now then what is it that appears on the next written part? A.—On page 40?

Q.—Is that the same meeting or another meeting? A.—It must be another meeting.

Q.—There is nothing at the commencement of that to show the beginning of the meeting or who were present, but there is the tail end of the meeting there, all properly signed? A.—Well, I don't remember that.

Q.—Mr. Hunter says, and there is a reasonable appearance of that being right, if you had confirmed it by your evidence, that the last part is the end of the meeting and that there was room left to write in the by-laws, but surely, Mr. Allen, in your company that is not the way minutes are written up? A.—No, sir, they are not now.

Q.—Since when are they not done that way? A.—Well, I don't know of any particular reason.

MR. HUNTER: May I speak to him?

MR. TILLEY: Yes. (Mr. Hunter confers with the witness.)

Q.—Make your explanation now. A.—It must have been for that purpose, although at present I don't remember it.

Q.—I pointed out to you that it might have been left for the by-laws, but to leave four or five blank pages in almost the last minutes in this book and then pass a resolution ratifying everything in the book with a few blank pages in it, is not a very good way to conduct the business of a company, is it? What would you say to that? A.—Well, at the time when you asked me that question I could not understand why those blank pages were there. It was three or four years ago and I had forgotten.

Q.—I cannot understand yet why minutes would be signed by the officers and pages left blank. It is very well to say that the by laws would go in there, but anything else could go in there as well. Now take this book at page 39. It is called Minute Book, No. 1 of the company after it was organized. Here are minutes inserted in the Minute Book at page 39 of a meeting that is supposed to be held on the 16th September, 1903. And then it is all struck out and in red ink written "error, should be on page 49." Then when you go over to page 49 you find that in order of its date that meeting should have been at page 49 but it is inserted in your Minute Book before meetings of the 17th of June, before a meeting of the 28th of May, so that the minutes of a September meeting appear in your Minute Book at page 39 before the minutes of May. Now how can such a thing as that happen? A.—That was a clerical error in copying into this Minute Book.

Q.—You did the writing? A.—Yes, I did.

47th day, June 26, 1906.

Sovereign Life,
(Thomas Allen, Ex'd.)

Q.—When was that book written up? A.—You mean each meeting? Shortly after the meeting.

Q.—How soon after? A.—Probably within two or three weeks.

Q.—Tell me how September could get in front of May. A.—Will you please show me how that is? I don't see the dates, they are apparently in order here.

Q.—That is September, 1903? A.—Yes.

Q.—The commencement of the meeting of September, 1903? A.—Yes.

Q.—That is all struck out and then you come to May, 1903. Now then, turning over to 49 you find that this minute is properly September and that page is duplicated again at page 49 in its proper date? A.—Yes.

Q.—Now then that meeting must have been held on the 29th September? A.—I should judge so. The 16th of September.

Q.—Must have been held on the 16th September. Then it must have been held before these minutes were written up at page 39? A.—Yes, I should judge so.

Q.—Then here you get the May meeting following? A.—Well, I cannot explain it now. All I know, is that that was written in here.

Q.—Mr. Hoover suggests audibly that that was a blank place left in the Minute Book. Could that be so? A.—It could, yes.

Q.—Why would a blank page be left in your Minute Book? A.—Oftentimes in turning over to write on that page I might leave a page there so as not to crowd it.

Q.—You could not crowd it, you had six lines left for the President to sign. That explanation could not be the right one? A.—There could not be anything put in there after that was signed, so this blank page could not count.

Q.—Why would you leave it there? A.—I don't know, unless accidentally in turning over.

Q.—It looks as though the early part of it was all written up at one time? A.—Oh no, it was not.

Q.—You say that is not so? A.—No sir, it is not so. That is simply a clerical error. In some way or other I got on to the wrong page in copying that in. There is nearly a page left where I have turned over.

Q.—You say these minutes were entered up and signed by the officials shortly after the meetings were held? A.—No, sir, I will qualify that if you please. After the minutes were passed at the following meeting.

Q.—Then would there always be a minute intervening? A.—Should be.

Q.—Then the minutes of one meeting are not entered up till they have been passed at the next meeting? A.—Oh they are entered up but they are not signed.

Q.—Then are you a director? A.—No.

Q.—Do you attend the meetings? A.—I do in the capacity of Secretary, that is all.

Q.—Do you copy this from any other book? A.—No, sir, I copy it from notes made at the meeting.

Q.—You take down the minutes and then you extend them in the Minute Book? A.—Yes.

JUDGE MACTAVISH: Are they read at the next meeting? A.—Yes, sir.

Q.—And confirmed? A.—Yes, sir.

MR. TILLEY: And they are read from the Minute Book, not from the notes? A.—From the Minute Book after they have been copied, yes sir, always.

Q.—Then that is all for the present, thank you, Mr. Allen.

MR. HOOVER recalled:

MR. TILLEY: Then, Mr. Hoover, the minute that we have referred to mentioned this note that the Directors gave. So that the cash was required to be paid by the Act, by the shareholders to the extent of 10 per cent. at least on their stock, was contributed by the discounting of a director's note in the bank and that was treated as cash? A.—Treated as cash against these notes. We anticipated the payment of enough notes.

Q.—You anticipated that the directors would give you the cash, therefore you put it in the bank and told the Government that it was cash, shareholders cash? A.—We made good these notes and produced it and if these notes had not been paid the directors would have lost the money.

Q.—Well, that is the way it was done, at any rate. Then there is a provision in Section 6 that after the stock is all subscribed and all paid up you may increase to two million dollars. Have you done that? A.—No sir.

Q.—Section 10 provides that you may acquire and dispose of real estate for use and occupation, of the annual value in any Province of $5,000, but

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

in Ontario it is extended to $10,000. Have you done that? A.—Not a dollar.

Q.—In any Province? A.—No.

Q.—Then Section 11 of the Act relates to the dividends to policyholders and shareholders (Reads Section 11.) I suppose no dividends have yet been declared or paid; that would not be reasonable to expect? A.—We have not arrived at that yet.

Q.—Do you issue any non-participating policies? A.—We do.

Q.—Where is your book showing the rates for non-participating policies? A.—I think the rate for non-participating is on a sheet by itself.

Q.—It has not been given to us? A.—Oh yes. Here it is. A copy of that was attached.

Q.—When did you commence to issue non-participating policies? A.—From the commencement. I think No. 1, the policy I hold, is non-participating.

Q.—You preferred the non-participating, did you? A.—Well, I preferred this particular kind that we issued at that time.

Q.—Could you have the same kind with participating benefits? A.—No.

Q.—So you preferred the kind rather than the profits? A.—Well, I preferred this particular kind. I would have preferred a participating policy, I think, if I could have got it at that time.

Q.—Have you just one policy in the company? A.—Yes.

Q.—Why were your non-participating rates not in your regular book to be used by agents? A.—Well, we did not desire to push the non-participating plans except this one particular policy.

Q.—That is the kind of policy you have? A.—That is the policy we originated at the time the company began business, and we have issued, I think, one hundred of them since that.

Q.—What is the kind of policy, how do you describe it? A.—Well, it is a 5 per cent. increasing.

Q.—That is the premiums increase as you get older? A.—No, this is a policy for $5,000 with $250 added to its face value for each annual premium paid until 15 payments have been made when it becomes paid up, for $8,750. The premiums are constant.

Q.—Do you give non-participating rates? For other kinds of policies? A.—Oh yes, all other kinds.

Q.—But you do not want the agents to push that business? A.—Which, the non-participating?

Q.—Yes? A.—I will answer that question frankly.

Q.—I should hope so? A.—That the desire of all life insurance companies is not to push non-participating policies.

Q.—I did not ask you about all companies. I was asking about your own company? A.—Yes, sir, that was the idea.

Q.—Why do you not want to push the non-participating business? A.—Because of the desire to write participating insurance, which is more profitable.

Q.—Why do you desire to write participating insurance? A.—Because it is more profitable.

Q.—To the shareholders? A.—To the company.

Q.—What part of the company? Under your Act the shareholders and policyholders are all members? A.—Yes.

Q.—Then I suppose profitable to the company means profitable to its members? A.—All concerned.

Q.—Or is there some person else, for instance the officers, that you think I should include in that? A.—the shareholders and the policyholders, those holding participating policies, participating in accumulations.

Q.—The members of the company, shareholders and policyholders? A.—Exactly.

Q.—Is the participating business more profitable to the shareholders or to the policyholders? A.—Well, we have not arrived at enough experience yet for me to answer that question.

Q.—I am asking you which motive it is which prompts you to push the participating rather that the non-participating business? Is it the desire to help the shareholders, or help the policyholders or help the management? A.—The purpose is to provide larger accumulations for the company and the corresponding amount of profits.

Q.—To get in more money? A.—That is the idea.

Q.—Have more money to invest? A.—Well, it puts on the books a better class of business.

Q.—I suppose by getting the participating rates you get a surplus over what you would get by non-participating rates; that goes without

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

saying? A.—We get a higher rate, but the best business is the higher premium business, the cheap business don't stay on your books.

Q.—Do not describe it as cheap? A.—That is the way it is regarded, cheap and nasty. People don't regard is as of any value. I had twenty years experience in natural premium insurance.

Q.—With all the agents around talking up the other they have come to despise it? A.—No, it is because when a man has his premium advanced under the natural premium policy—

Q.—I am not talking about natural premium. I am talking about participating and non-participating? A.—The participating is the most desirable.

Q.—From the policyholders' standpoint? A.—Yes, if you select your company wisely.

Q.—Does that refer to a young company? A.—It refers to any company under proper management.

Q.—You think the policyholder who takes a participating policy will relatively get a better return than the one who takes a non-participating policy? A.—Certainly.

Q.—In proportion to the amount he pays? A.—Yes.

Q.—If that is so why don't you push the non-participating business as affording something better for the shareholders? Then the policyholder will get less in proportion to what he pays in, therefore better business? A.—Well, we have to sell the goods the people want.

Q.—You are telling me that you would rather push one class of goods as opposed to the other. I want to know why you do it if the non-participating class of business is more profitable for the shareholders? A.—It is not. We have to have both.

MR. KENT: Then it must be more profitable for the non-participating policyholders?

MR. TILLEY: Is it the non-participating policyholder that gets the benefit? A.—The non-participating policyholder pays so much money for his insurance. He buys it as you buy your groceries. He gets what he pays for.

Q.—Sometimes? A.—The participating policyholder is interested in the management of the company.

MR. KENT: Is not the non-participating carried partly at the expense of the participating policyholder? A.—I think not.

Q.—You say you sell the goods that the people call for? A.—That is right.

Q.—But you do not show the goods in your window? A.—Oh yes, we do.

Q.—It is not in your rate book? A.—Oh, yes.

MR. TILLEY: You have this paper in your inside pocket and here is this then. That is the way these goods are shown. If the man really insists the agent can ultimately bring out something that we have if you insist but it is not what we think you should buy. Isn't that why it is kept out of the book? A.—No, I think not. The wise insurance agent is the man who advocates the kind of goods the people want.

Q.—Do you know why this leaflet was made separate from your regular rate book to supply agents? A.—To save expense. It was compiled after the rate book was.

Q.—That is a different answer entirely. Which is the right answer? A.—Well, when we started we simply had one form of policy and we desired to keep our expenses low and did not issue all these. If a man wanted this insurance we quoted a rate from the office.

Q.—Do not talk as if that was all so natural, because that is not the answer you gave me a minute ago? A.—But you are trying to—

Q.—No, I am not trying anything except to get the facts and you do not give them apparently because you are changing your answer. This book apparently was issued in January, 1903? A.—Yes.

Q.—When was this leaflet issued? A.—I will let the actuary answer that question.

Q.—Well, Mr. Gould?

MR. GOULD: These rates were issued before I came to the company so I cannot say that explicitly, but I believe that pamphlet was got up after the rate book, some time during 1903

JUDGE MacTAVISH: The agents at the start had only the rate book? A.—Yes, my instructions to agents was this; it was useless to go to the expense of incorporating other companies' non-participating rates and my instructions was in selling non-participating insurance to use the other companies' rates.

MR. TILLEY: Is that in any

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

printed form or not? A.—They all have them.

Q.—Would you answer my question, please, is that in a printed form› your instructions to your agents? A.—Yes, I think so. No, I don't know as it is, but that is my verbal instructions.

Q.—That when you find a man who insists on a non-participating policy and you cannot get him to take a participating policy, take some other company's rate book? A.—I think the agent sells what the man is disposed to buy. He is not disposed to educate him.

Q.—I thought it was the good agent who could get the man to take what the company wants him to take rather than what the man wants himself; I thought that was the sign of a good agent? A.—I don't think it. In the olden days we had to work against the idea that it would displease Providence if a man took a policy. I always endeavoured to steer clear of people who thought that way and there were lots of them.

Q.—Did you tell your agents that when they have to give a non-participating policy to get the rates of another company? A.—To quote the rate of another company.

Q.—Then did you issue a policy in the rates of another company? A.—Now please understand, I told you distinctly that when we started we attempted to push a non-participating policy, this policy that increased $250 a year for each annual premium paid, and we had no rate book. Our object and purpose was to keep our expenses down to the lowest limit.

Q.—I do not know whether you cannot or will not understand my question? A.—It went on for six months until we had a rate book.

Q.—You have been an agent yourself? A.—I began from the ground up, yes, sir.

Q.—Try then to let someone else have an equal talk with you in this. I want to know this, did you write any non-participating business on the rates of any other company? A.—Oh yes, we have.

Q.—In 1903 did you? A.—I won't name any particular time. We got very little of it on our books.

Q.—I did not ask you that. You see it is impossible for a person to tell an insurance agent what he does want? A.—I don't know what you are driving at and I don't know that it amounts to anything if I did.

Q.—Probably not. Before you issued this pamphlet to the agents did you write any non-participating business? A.—Certainly, we did.

Q.—Except the special policy? A.—I am not sure of that.

Q.—Can you tell me that? A.—I don't remember.

Q.—Probably your actuary will look that up and let us know.

MR. GOULD: We can find that out.

MR. HUNTER: May I make a suggestion that will probably freshen him up?

MR. TILLEY: Yes.

MR. HUNTER: You will remember, Mr. Hoover, those rates were specially calculated on the O.M. Table and that the profit rates were calculated first. A.—That is right. We were the first company in Canada to adopt the O.M. Table. These rates were computed by our actuary from that table.

Q.—When you say these rates you mean the participating rates? A.—Yes.

Q.—The non-participating rates were based on what table? A.—The same table, at a later date.

Q.—Then what has the table to do with the matter? A.—It makes a difference in premium.

Q.—But what has it to do with these books?

MR. HUNTER: I was going to suggest to him that it made a difference in time because they were anxious to get out a rate table, and the first rates computed were the profit rates printed in the Manual. Later when the actuary completed the computation of the non-profit rates they were put out in circular form in the same year.

MR. TILLEY: Mr. Hoover, are you keeping your participating and non-participating business separate? A.—I think so. I pay very little attention to that end of it. The actuary will answer.

MR. GOULD: There has been no separate account although preparations have been made for keeping an individual policy account with every policy.

Q.—We will take that up with you later then. Now Section 12 provides as to the voting power of policyholders or persons who are actual holders of policies. Have you given us any information or return as to the policyholders voting in the company? A.—Yes.

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q.—And what does that disclose, have they voted as policyholders? A.—Yes, at the annual meeting.

Q.—I see that your policyholders can vote by proxy? A.—Yes.

Q.—Is that common to other companies? A.—No.

Q.—Do you know of any other Canadian company where they vote by proxy? A.—In all former charters the policyholder could only vote I believe by consent of the company. The Sovereign Life Company's insurance charter provides that the policyholders shall vote for each $1,000 of insurance.

Q.—Do you know of any Canadian company that has given the policyholder the right to vote by proxy? A.—Do I know of any Canadian company who has? Well, you have been examining them, you ought to ask them that question. I am not familiar with their affairs.

Q.—Now will you answer my question? A.—Do I know whether they vote in any other company? I believe they do in some companies where they give them that right but I say no charter—

Q.—By proxy? A.—I think so.

Q.—Can you give me the name of any other Canadian company that gives the right to vote by proxy to policyholders? A.—Well, I am unable to answer that queston. I am not familiar.

Q.—You cannot? A.—No.

Q.—Was this idea of policyholders voting by proxy an idea of yours? A.—Yes, it was our idea to give our policyholders more liberal advantages than the other charters if we could do so.

Q.—You thought you would make that a feature of your company? A.—In former charters the participating policyholders could be given the right to vote at annual meetings by the company agreeing to let them have that rght. In the charter of the Sovereign Life it is provided that participating policyholders are members and entitled to vote.

Q.—And that is a feature of your company? A.—Yes.

Q.—And I suppose it is fair to say it is an idea of yours? A.—Well, it is one of the later ideas; as we progress we try to give better advantages.

Q.—But it was your idea in connection with the Sovereign? A.—Well, it may have been our idea.

Q.—I mean yours personally? A.—I won't claim it. I am not egotistical enough to do that.

Q.—Did any person else suggest it to you? A.—I have forgotten about that.

MR. HUNTER: That clause was settled by the Superintendent of Insurance. A.—It may have been suggested by the Superintendent of Insurance.

Q.—Will you say it was that they should vote by proxy and not the usual clause that they shall vote in person? A.—No, I am unable to answer that definitely.

Q.—I notice that you have a bylaw that no agent soliciting policies can hold a proxy? A.—Yes.

Q.—Nor any Provincial Manager? A.—Yes.

Q.—Nor any Manager unless he is a director? A.—That is right.

Q.—So that you are privileged to hold proxies but no other agent? A.—Not an agent of the company.

Q.—We will probably deal with that more fully later. Then there is a provision in clause 13 as to surrender values and paid-up insurance. Do the directors fix the amount of the surrender value? A.—It is fixed in the rate book.

Q.—The result of the section is that if the policyholder does not elect and demand what he desires that then after twelve months the company may choose whether it shall give him a paid-up policy or a cash surrender value, and having chosen it must either give the policy or set aside the cash for the policyholder. That is the way it works out? A.—In former charters the companies' obligations to give the policy after three years' premiums, had been made dependent upon the assured making his application therefor within twelve months after the date of the lapse. If such a demand was not made in twelve months the company had the right to forfeit. In the Sovereign Life there is no forfeiture; whether demanded or not the company has to carry on its books to the credit of the assured the paid-up or commuted value of the policy.

Q.—The assured has twelve months in which to elect, and if he does not elect the company elects for him? A.—The credit is there.

Q.—Mr. Hunter points out that the Century Company got a charter the year before giving the policyholders the right to vote by proxy. Then a provisional meeting of the Board was

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

held on the 17th of June, 1902, and it shows on page 13 that the stock then was at a premium of $25? A.—A premium of 25 per cent.

Q.—That is 125? A.—Yes.

Q.—And you and some of the shareholders then subscribed at that meeting. You took 100 shares? A.—Yes.

Q.—Edmund King, 25 shares, and so on? A.—Yes.

Q.—There was some understanding about that stock that it would be paid up, that a call of 20 per cent. was to be made on it? A.—The first stock was sold, $20 plus 25 per cent. making $25.

Q.—The call was 20 per cent. on both the capital and premiums? A.—No, the premium is always 25 per cent. Call $20 plus 25 per cent.

Q.—You won't listen to me. The call was 20 per cent. of the capital and the premium combined; I am not saying the premium was 20 per cent. It was $25? A.—The call was 20 per cent.

Q.—And 20 per cent. of $25 would be the $5 you are talking about? A.—All right.

Q.—Then it is right isn't it? A.—Yes.

Q.—20 per cent. of the capital and the premium. Then at page 17 you set out your prospectus, and you give the names of the directors. The prospectus is not very long, and I think I shall read it. Have you any other printed copies of this? A.—That is all.

Q.—I suppose this was written by Mr. Hoover wasn't it? A.—I expect I had something to do with its preparation.

Q.—I would expect that too. I am asking you the question? A.—I will say yes.

Q.—(The prospectus was read and a copy afterwards filed as No. 286.) A.—Allow me to correct you. The reference to myself there was not written by myself. I did not write that paragraph.

Q.—Did Mr. Hunter write it for you?

MR. HUNTER: I think Mr. Hornibrook was the Chairman.

A.—It was by some of my friends.

MR. TILLEY: Was it fixed by computation or actuarial science? A.—I think someone who had lots of confidence in me wrote it. I will say that that prediction has been pretty accurately fulfilled.

Q.—You mean the last part about the paid-up insurance? A.—No, the whole thing.

Q.—Have you taken a million in the first year? A.—No, we didn't take quite that. We took all we wanted.

Q.—Do you answer that way?

MR. GOULD: The first year's business was ten months and there was about $800,000.

Q.—And in the second year, 1904?

JUDGE MacTAVISH: $633,823.00 page 347 of the blue book? A.—Quite ample, we should not have taken that.

MR. TILLEY: There is a danger in taking too much? A.—Yes, that is where these inexperienced men get into trouble. You should not take too much business. Select it wisely and put only on your books what you can get under a proper basis and proper expenditure.

Q.—If the persons who are being asked to subscribe for stock were intelligent on the situation it would almost be a bad thing to tell them that there was going to be an immense amount of insurance written? A.—Yes, I would not take stock in a company that made that proposition.

Q.—What do you say about this proposition that was put here? A.—Very reasonable.

Q.—A million for the first year? A.—Quite reasonable, because we had cleared a large premium to provide for the deficit in the reserve.

Q.—I suppose it is common knowledge that the ordinary man reading a prospectus would not be aware of the danger of taking too much business, would he, the ordinary investor; you have got to have some knowledge of the insurance business before you would appreciate that? A.—That may be true.

Q.—Even an inexperienced manager, who knows something about the business, gets into that difficulty? A.—People don't generally understand that a life company should go slow.

Q.—Instead of putting a premium on going too fast it should almost put a premium on going too slow? A.—It should put the brakes on and go slow.

Q.—Instead of giving the manager a dollar a thousand for all over a certain amount, it should take the dollar off him, if he got too much? A.—No, give him the dollar. I could have placed two million dollars on the books of this company, but I knew better.

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

If I had been working for my personal money making propensities I might have done it, but I had the welfare of this company at heart and went slow. I could have placed twice the business.

Q.—You put the brakes on as you say? A.—Yes and I am proud of the financial position of this company.

Q.—Don't be too honest to say so then, Mr. Hoover. What business should a company put on in the second year? A.—Well, with our capital we should have placed about half a million.

Q.—The third year? A.—We should not have taken but very little more.

Q.—The fourth year? A.—No more.

Q.—The fifth year? A.—I don't think we should place a million of business on our books for the first five years.

Q.—Not a full million? A.—No.

Q.—But you have got a million here for the first year? A.—Per year. We should not write a million of new business annually.

Q.—For the first five years? A.—No.

Q.—Then after the first five years how rapidly should the business expand? A.—If you have surplus enough.

Q.—I am talking about a well managed company like yours? A.—You take the Ætna, that is an old established company. They didn't have as much business as we have got for five years.

Q.—Then after the fifth year, taking a company, as you propose to carry on yours? A.—After five years you can advance a little.

Q.—Commence with the million mark? A.—Yes, and go slow.

Q.—At the end of another five year term, what mark should you reach per year? A.—I should say that a company should increase its new business about after it gets out of the impairment of its capital stock, it is beyond that period so that it accumulates surplus, about a quarter of a million a year would be enough to increase. The net gain.

Q.—A net gain of a quarter of a million? A.—Yes, I don't think it should go faster than that.

Q.—Is that your modest ambition with the Sovereign? A.—That is all.

Q.—Add on about $250,000 net increase? A.—We gained last year about $600,000, I think.

Q.—That is over half a million? A.—Yes, that is too much.

Q.—It makes too strenuous a life for the company? A.—It is not the business you write, it is the business you keep that makes a successful underwriter.

Q.—The persistency of the business? A.—Yes. It is a great mistake to write a million or two of business and gain $200,000.

Q.—Then did you consider, with the conditions that existed, that there was a demand or a need for another new company? A.—Yes.

Q.—You thought the market was not quite amply supplied? A.—I thought that I could organize a life insurance company that would be a decided improvement upon those formerly organized. That was my idea.

Q.—You had been associated with other companies? A.—I had had twenty years' practical experience with mutual corporations.

Q.—With which one in particular? A.—I was with the Covenant Mutual, I think about eighteen years, something like that.

Q.—Representing it here in Canada? A.—I came to Canada twenty-six years ago and began writing business, began writing business for that company, and I think I can lay claim to having been the poorest paid life insurance agent we had. The first application I wrote for $1,000 I received a commission of $3.50.

Q.—What was the rest? Rebate? A.—That was the total money that came out of it. The company got the balance of it. For writing a $5,000 application I got $7,50. That was my first work. I worked hard and made considerable money.

Q.—That was twenty-six years ago? A.—Yes.

Q.—And that was mutual business? A.—Yes.

Q.—What would be the premium? A.—That was a membership fee. The membership fee was $12.50.

Q.—And you got $3.50? A.—Yes. No, the membership fee was $5 and I got $3.50.

Q.—That wasn't bad, was it? A.—The membership fee on $2,500 was $7, and I got $5. On a $5,000 application the membership fee was $10, and I got $7.50.

Q.—You were getting a fair share, were you not? A.—The company got the balance.

Q.—You turned over the balance, did you? A.—The company got the

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

balance. Will you please understand that that had nothing to do with the first year's premium.

Q.—What was the first year's premium? A.—The first year's premium was an assessment according to the deaths.

Q.—All you had to do was to get the $10 and turn over its share to the company? A.—That was the membership fee. That carried him for sixty days.

Q.—Expenses have gone up a great deal since then in your time, twenty-six years ago? A.—Yes.

Q.—What would an ordinary agent get for ordinary insurance business at that time? A.—In old line insurance?

Q.—Yes? A.—Oh I presume about 50 per cent.

Q.—Twenty-six years ago? A.—Yes, from 25 to 50 per cent. of the first year's premium.

Q.—Any renewal? A.—Oh yes, they always gave, I think, 5 to 7½ per cent.

Q.—So long as the man remained with the company, I suppose? A.—It depended on the contract.

Q.—Then did you notice the gradual increase in commissions to agents throughout the years that you were in the business? A.—It has been increasing.

Q.—Up to very high proportions? A.—It has been increasing, yes.

Q.—Some agents ask for practically the whole first year's premium? A.—Yes, and a little more beside.

Q.—That is a fact? A.—Oh yes, no doubt about that.

MR. KENT: Do they get a little off the second year? A.—Well, we don't give it.

Q.—I do not care what company gives it; the question is whether the agent gets it? A.—They say they do. I don't know.

MR. TILLEY: I suppose that would be more in the shape of bonuses at the end of the year for getting a certain amount of business? A.—That is the whole trouble. The whole trouble has been caused by the American companies bonusing agents.

Q.—Probably it is part of his contract that if he will write a certain amount he will get a bonus. Then towards the end of the year it pays him to rebate in order to get this volume on his books? A.—That is right.

Q.—It is over competition that is causing that? A.—Well, it is the zeal of the agent to write so much business, and the companies are generally to blame for it themselves.

Q.—Do you think in view of that state of affairs, that undue pressure to write business, that there was really need for another insurance company? A.—Oh yes, there is need for more.

Q.—More yet? A.—Yes. There are companies in England where you have to go to the office and apply for a policy, go before the Board, put in a waiting application. The very best companies that exist. That shows you that rapid spasmodic growth is wrong. Slow growth is better.

Q.—I dislike to be trying to tell you that I want a non-participating policy if you are trying to sell me a participating one. That condition of affairs does not exist in Canada, that a man has to run around to find an insurance company to get insured? A.—Well, if he did I would be afraid of him.

Q.—I am asking you if it exists? A.—I never had that case happen but once, and the man murdered his wife six months after he got the policy. At least he was tried for murder.

Q.—That was a policy in your company? A.—Yes.

JUDGE MACTAVISH: It has been stated in the newspapers within the last four days that there are fewer life insurance companies in Great Britain in proportion to the population than there are in Canada. Do you know whether that is accurate? A.—Well, I would not be able to state that without lookiig it up. But the people are better educated to insurance there; they go to the offices for it. Here the agents are so active that a man doesn't get a chance to go to the office.

MR. TILLEY: He cannot reach the office, he is met part way? A.—The agent sees him first.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 P.M., June 26th, 1906.

Examination of Mr. A. H. Hoover continued:

MR. TILLEY: Then the prospectus goes on regarding the subscription for capital stock: "The capital stock of the Sovereign Life Insurance Company of Canada is one million dollars," etc. (Reads prospectus).

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q.—Besides that prospectus was there any other prospectus issued at any time? A.—Nothing except that; there were editions issued increasing the price, you know, but the substance was used throughout the whole thing.

Q.—Probably a sort of re-print would it be? A.—Yes, with the figures corrected; there were no statements made except what are embodied.

Q.—No additional statements except what are here? A.—No.

Q.—At the same meeting that approved the prospectus you presented an account for preliminary expenses of organizing and procuring subscribers and at the following meeting that account was considered, and was ordered to be paid, after apparently having been referred to some Committee to enquire into it and check it over— A.—Yes.

Q.—And the payment was made in this way, $2,500 was to be credited on the stock you had subscribed, $2,000 on the capital and $500 on the premium? A.—Yes.

Q.—The balance of the account amounting to $531.83 was ordered to be paid in cash? A.—Yes.

Q.—Is that the same amount that is referred to in the ledger as a loan account? A.—Money advanced by me, I advanced $3,100 to the company to organize and I assumed all the liability, and advanced the money until after this payment was made to me from stock selling.

Q.—You have an account opened up for the balance of the cash? A.—Yes.

Q.—That is in the ledger at page 396, and the account is kept in that way, Loan Account, 1902, January 21st, By cash $531.83—that would represent I suppose— A.—The difference between the $2,500 I suppose.

Q.—And this entry when the Committee authorized that to be paid to you in cash— A.—I think so, it was after that time some time.

Q.—This resolution is passed authorizing payment of that on the 17th September, 1902, that is the resolution that authorizes the $2,500 to be credited on your stock and premium and this to be paid in cash, and yet this is entered as of January 21st, 1902, but it was not authorized till September; can you tell me how that was? A.—Let me see what you are reading from?

Q.—I am reading from the minutes of September, 1902. The resolution reads: "The Chairman reported that the Auditing Committee appointed by the previous meeting had audited Mr. Hoover's accounts and had found Mr. Hoover had properly expended in conection with the company $3,031.83," etc. (Reads balance of resolution.)

MR. HUNTER: The book-keeper seems to have dated it back to the date of the first transaction.

WITNESS: Here are all the vouchers; that represnts every dollar that has been expended on behalf of the company.

MR. TILLEY: Q.—January 21st, 1902: "Received from A. H. Hoover the sum of $3.67 in payment of telegrams to newspapers incorporating the Sovereign Life Company of Canada, Parliamentary notice, etc., by Hunter & Hunter, Solicitors, E. E. Skean, Operator"—what you mean is that is the first item you paid out of your own pocket on account of this company? A.—Yes.

Q.—And the total of that amounted to the sum shown in the resolution? A.—Yes.

Q.—And therefore when you came to enter this cash you dated it back to the time when you commenced to disburse, that is practically what it amounts to—you charge it up as of the date when the payments were commenced to be made? A.—I expect so.

Q.—The cash was paid out to you apparently on August 13th, 1902? A.—That is right.

Q.—The meeting at which the account was referred to a Committee was apparently in June, and the meeting approving of the settlement as the Committee had settled it was in September, 1902, so that the payment would be in August apparently after the Committee had dealt with it; then it was reported to the Board and approved? A.—Yes previously audited by the Provisional Board and afterwards audited by Edwards & Langley, and I have their certificate in my pocket. This perhaps might help you in reference to the disbursements up to that time. (Produces a bundle of papers).

Q.—Anyway that is what the minutes show as I have read them. Mr. Hunter asked me to ask you whether there was any profit in connection with these items in any shape or form? A.—No sir.

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q.—It was all out-of-pocket expenses? A.—I advanced $3,100 to the company and donated my services for one year gratuitously.

Q.—I notice at the meeting of the 15th November, 1902, it was resolved that as soon as the 2,500 shares of the capital stock of the company are subscribed for that the premium on further sales be advanced to a premium of 33 1-3 per cent.? A.—Yes.

Q.—Was that resolution made known to the proposed shareholders? A.—Yes.

MR. HUNTER: That resolution was not carried out; it was a later resolution.

MR. TILLEY: Q.—Was this resolution embodied in your literature that was circulated? A.—The resolution was not, we simply printed a new price list, and began selling.

Q.—Did you not before that instruct your agents that a resolution had been passed advancing the price of stock, they had better get their friends in, was it not used for that purpose? A.—No.

Q.—Why was the resolution passed on this date in anticipation in this way? A.—In organizing the company that was the programme laid down from the very commencement. As I told you in the first meeting of the Provisional Board of Directors I illustrated my plans by a blackboard illustration, stating it was my purpose when so many thousand dollars of the stock had been subscribed for to advance that stock to 33 1-3 per cent., and the last quarter of a million to fifty per cent., and we carried it out from start to finish without any variations.

Q.—On the 15th December, 1902, there was another meeting of the Provisional Directors, the last meeting of the Provisional Directors being on the 20th December, 1902. In the meeting of December 15th, 1902, there is this minute: "The question of contract with A. H. Hoover was taken up and discussed," etc. (Reads minute to the words "next meetings".) That is the way their resolution reads now. Originally it read, "To draft a contract in accordance with Mr. Hoover's requirements, and present same for further consideration," and apparently it has been amended since to read, "In accordance with the basis discussed by Mr. Hoover"—do you know when that was amended? A.—It may have been amended at the last meeting.

Q.—Can you tell from memory when it was amended? A.—No.

Q.—Some of your corrections I notice were made and initialed, but this does not seem to be by you? A.—The contract was fully understood by every member of the Provisional Board.

Q.—I suppose it would have brought just the same contract into existence whether it said in accordance with Mr. Hoover's requirements or in accordance with the basis discussed with Mr. Hoover? A.—It would have made no difference.

Q.—Then there was one other meeting on the 20th December, and then the other Minute Book commences. The inaugural meeting of the company was apparently held on the 22nd December, 1902, at 11 o'clock a.m. I suppose that the notice of the meeting had been advertised and notice sent to the shareholders. It sets out the shareholders present, and this printed pamphlet you gave me indicates the way in which it was printed for distribution afterwards, a record of that first meeting? A.—A copy sent to each shareholder.

Q.—Do you know whether this printed circular is an exact transcript of the minutes as appearing in the books? A.—I think so, I think the Secretary copied it verbatim.

—Mr. Tilley files pamphlet containing proceedings of first meeting, which was marked as Exhibit 280.

Q.—Mr. Hunter tells me there is an exception, that this printed circular which was sent to the shareholders does not contain your contract with the company which was in the mniutes? A.—All right, I will correct my statement in that respect.

Q.—That was the most important thing transacted at the meeting? A.—The most unimportant I thought.

Q.—The names of the shareholders appearing in person are set out in the original Minute Book, and then a large number of shareholders are said to have been represented by proxy; who held the proxies for these shareholders? A.—The subscription list, the subscription blank for the stock carried with it the proxy to myself.

Q.—Did you hold all the proxies? A.—Yes, sir.

Q.—I will read a form of the application for stock.

MR. HUNTER: He is hardly correct in saying he had them all.

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

MR. TILLEY: I think there are one or two men that showed enough individuality to strike it out, but they are so few we will not bother looking them up. We will take the first form of application that was used and the application for shares reads in this way: I am reading now form certificate number 34, I suppose that would be one of the earliest?

MR. HUNTER: That would be share certificate number; yes.

MR. TILLEY: "To the Directors of the Sovereign Life Assurance Company of Canada,

"I the undersigned do hereby subscribe for .... shares (or for such lesser number as may be allotted to me) of $100 each of the capital stock of the Sovereign Life Assurance Company at a premium of $25 per share, and I covenant and agree with the said company to pay on allotment a call of 25 per cent. on each share of the stock subscribed by and allotted to me, including the premium thereon, and all other calls, if any, on the said shares and premium aforesaid as the same may from time to time be made. And I hereby authorize you upon allotment to register me as the holder of the said shares, and to give me notice of such allotment by mail; and I hereby constitute and appoint Henry Hoover of the City of Toronto, in the County of York, Manager, my proxy to vote for me upon my said shares at all meetings of shareholders of the company at which I am not personally present."

MR. LANGMUIR: What is the date of that?

MR. TILLEY: That particular certificate is dated 14th August, 1902. "In witness whereof I have hereto set my hand and seal in the presence of"—I suppose usually it would be the name of the agent that got the subscription that would be there as witness? There is a place for the applicant to sign, with his address and occupation below, and a seal opposite his name. Do you know why the seal was put there? A.—Because it was a legal requirement, I suppose.

Q.—Had it anything to do with the proxy authorizing you to vote? A.—I do not think so.

Q.—Was it considered whether that could be revoked if it was under seal— A.—That is a legal question which was referred to my solicitor and he drew the proxy at my request.

MR. TILLEY: Q.—Under instructions from you as to what was wanted? A.—Yes.

Q.—Or could he divine your wishes so well that he would be able to draw it without your instructions? A.—I do not think so, I thnk I instructed him.

Q.—You told him you wanted him to put in the application a clause that you should be proxy to vote for all these applicants? A.—Yes.

Q.—And was the question of having it under seal discussed at that time as making it a little more binding on him as to attending of meetings and voting? A.—I think that matter was discussed, everything was discussed most fully, every point.

Q.—Everything would include this small matter of the voting? A.—Yes.

Q.—Was it thought that appointing you proxy under seal it was incapable of being revoked? A.—No, those proxies can be revoked any time by thirty days' notice.

Q.—The proxies of the shareholders can be revoked at any time—you say thirty days' notice? A.—I thnk that is the legal requirement is it not; I understand they can be revoked at any time.

MR. HUNTER: He means the proxy has to be filed within thirty days.

MR. TILLEY: That comes up in the by-laws, we will not delay there. I think it is fair to say that other applications for shares while differing in the way the payment was to be made and the amount of the premium and so on, were all uniform with regard to the provisions as to you being their proxy? A.—I think so.

Q.—And that they were all signed in this way except in one or two cases for a very small number of shares, probably you would be the proxy for all except ten or a dozen shares in the company? A.—I never counted them up.

Q.—You would not need to count them up? A.—Most of them are made to me direct.

Q.—Just to show the difference, I will read a clause at the end of the later proxy, "And I hereby authorize you to register me as the holder of the said shares and to give me notice of such registration by mail, and I hereby constitute and appoint Addison Henry Hoover, Esquire, in the City of Toronto, County of York,

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

President of the company, my proxy to vote for me upon my said shares at all future meetings of the company at which I am not personally present." That seems to be practically to the same effect. This is the new form. Here is another one, but the clause is the same. Why did you have that application worded in that way? A.—So that the shareholders could be represented at the annual meeting.

Q.—Why did you not leave them to be represented by whomsoever they thought best to appoint later? A.—That would produce chaos, that would not do, all corporations must have some one to represent the shareholders.

Q.—There must be some one? A.—Some one familiar with the concern in order to direct it intelligently.

Q.—Did you think it would be inadvisable to have the other shareholders appointing some person else as proxy? A.—At the time of the provisional Board and the selling of the shares we could not determine who would go on after the organization meeting.

Q.—Who would go on what, the Board? A.—Yes, and it was desirable to have—

Q.—Why could not you determine that? A.—Because they never do, the applicants for a charter do not all go on; you know that as well as I do. We wanted some one to represent the shareholders who were going to remain with the company, who were going to manage the company.

Q.—It was important to have these people all represented at the inaugural meeting? A.—Yes.

Q.—Because the permanent directors were going to be appointed then? A.—Yes.

Q.—And this scheme enabled them all to represent their views at the meeting? A.—Yes.

Q.—So far as they were consistent with yours, that is right? A.—I do not know that I will say that.

Q.—You were the proxy uniformly throughout? A.—I felt that in placing their confidence in me I had a trust in hand which I carried out faithfully and fully in the interests of the institution as a whole.

Q.—I suppose that you recognize the ease with which proxies could be got in the application for shares in that way? A.—I don't think so, I think if you will go out and undertake it you won't find it very easy.

Q.—Probably not to get them for myself, but in the ordinary way it is easier to get a proxy hitched on to an application where it is in the printed form, much easier than it is to get it afterwards by mail? A.—I do not think so.

Q.—It is a wonder you did not take the easiest method? A.—We had to have these votes in order to organize the company.

Q.—And to be sure of Mr. Hoover's contract going through? A.—I won't say that.

Q.—Will you say that was not so? A.—That contract did not worry me any. The directors would have voted me a much larger salary than I received.

Q.—They would have done anything you told them at that time? A.—I am quite sure the Board would.

Q.—And if it did not it would have been good day to them all? A.—No, sir.

Q.—Why not? A.—There never has been any friction.

Q.—There never is very much friction between a child and the parents, just temporary if there is any, and that is the same with this company, you had absolute control of it? A.—We will say yes, I will admit it if that is what you are fishing for I will say yes, absolute control.

MR. KENT: You were the man behind the gun.

MR. TILLEY: He was the gun, I think? A.—I am responsible for its success.

Q. It is not necessary to read all these names because you would be the proxy in each case, but the total stock represented in person at the meeting was 839 shares of the capital stock, that would include a large number of your own shares, do you remember how many? A.—I do not recollect, the books will show. I had enough to qualify me, however.

Q.—You had at that time 533 shares out of 839, and besides that you represented by proxy 1,019 shares of the capital stock. Having set out the persons that were present, "Mr. E. E. Sheppard called the meeting to order," etc. (Reads minutes of meeting of December 22, 1902.)

Q.—Do you know why that was left out of the notice? (As to confirming the contract with the General Manager.) A.—I have no recollection.

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q. It is rather surprising that when this concerned yourself, and you were going to vote for all these people you would not let them know that your contract was going to be considered and adopted? A.—It might have been an afterthought.

Q.—No, because we have already referred to the minutes where it is stated Mr. Hunter was to draw whatever you required, or whatever had been discussed with you, so that was all under way.

MR. HUNTER: There was a further minute intervening between that in which it was considered by the Provisional Board and referred to the general meeting for action.

MR. TILLEY: Yes, that is so? A.—The contract was discussed with the Provisional Board and approved. Mr. Hunter was instructed to prepare the contract accordingly.

MR. HUNTER: And that draft contract was again considered and referred to the general meeting?

MR. TILLEY: Yes, it is at page 47; extract from minute of meeting of 20th December, 1902: "The solicitor reported the draft of the agreement with Mr. Hoover as Manager, providing for $2,500 per annum payable monthly and continuing commission and renewal interest of $1 per thousand of insurance in force, agreement to be for 6 years, and then subject to be terminated after notice by resolution of the annual general meeting, and upon such termination commission and renewal interest to be payable only on business undertaken while Mr. Hoover was manager; Mr. Hoover to give bond and to conform to the by-laws and direction of the Board and Executive Committee. The said draft was approved and it was resolved to ask the general meeting for confirmation of the said agreement." So that that minute, which was passed on the 20th December, specifically referred this matter to the general meeting of the shareholders to be held on the 22nd. This minute is on the 20th, so that the notice had been sent out before that, had not it? A.—I won't be sure.

Q.—The notice is dated 9th December, but that would be after the resolution which referred the contract to Mr. Hunter to be prepared. Well, I will go on with the notice: "Notice signed by John T. Hornibrook," etc. (Reads minute.) Did you arrange as to the portion to be extracted from this report when you were professing to copy the report? A.—That is simply an error of the accountant in copying it.

Q.—He just happened to leave that out? A.—He happened to leave out one word or so. Please mark so that that can be written in.

Q.—I certainly will? A.—The omission is only a word or two.

MR. HUNTER: There is a paragraph. He is thinking of "by this means." There is a whole paragraph left out as to the details of your contract.

MR. TILLEY: This is left out, after the paragraph of the report ending with the words "The business of the Sovereign Life on lines both safe and attractive." Then comes this portion that is left out: "Your Provisional Directors carefully considered the question of contract to be made between the company and its manager and came to the conclusion that the best interests of the company would be conserved by basing the remuneration upon the future success of the company, and therefore have arranged a contract with Mr. Hoover at a salary of $2,500 per annum, and also a commission and renewal interest of $1 per each $1,000 of insurance in force at the end of each year, the said commission or renewal interest to continue without termination and to be payable annually to Mr. Hoover, his executors, administrators or assigns so long as the said insurance remains in force. By this means"—and then the portion left out stops, and it runs into the report where it commences with, "Your Provisional Board of Directors," etc. (Continues reading.) Then this also is left out after "for his best energies on its behalf," "Your Provisional Board submit herewith the draft of the agreement with the manager containing the above provisions and recommend its confirmation"—was that a slip too? A.—I presume so. I have no recollection now; there is nothing intentional about the matter, it was open and above board.

MR. LANGMUIR: Is that which you read just now not given?

MR. TILLEY: No. (Continues reading from minute.) The rental of $1,000 in the minutes of the Board appears in the printed report as a rental of $1,200 per annum. What rent do you pay there? A.—We pay the same rent, $100 a month.

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q.—The company pays $100 a month? A.—Yes.

Q.—How is it that it is $1,000 mentioned here? A.—We started in at a thousand I think, and we had some additional vault room or something of that kind.

Q.—Does any person remember the detail of it?

MR. ALLEN: I think it was $1,200, if that is $1,000 there it is a mistake.

MR. TILLEY: (Continues reading minute). Then the actuary's report is set out, and while I do not like to take up too much time reading these, I think these are all very important, and probably you can get them quicker by my reading them than in any other way. Is that included in the pamphlet? A.—No.

Actuary's report to be copied and filed as Exhibit 281.

Mr. Tilley reads Actuary's report.

Q.—The O.M. table mentioned there is a little more stringent? A.—It covers a larger number of observations, later data, brought down to the present time.

Q.—Does it require a higher or lower reserve to be obtained? A.—It just depends on the rate of interest.

Q.—Taking the same rate as the Hm. table?

MR. GOULD: A.—In this O.M. table you can hardly say that the reserve is higher or lower, it will depend particularly upon the age; the mortality experience in the early ages as represented by the O.M. table is more favorable to the insured, and later years it is more stringent, so that that would require in the earlier years of the policy a higher reserve.

Q.—But the idea is you must put up the reserve for this deferred mortality which will come in later?

MR. GOULD: Yes.

Q.—In the earlier stages you are not paying it out in death claims so that you must keep it there as a reserve for future claims?

MR. GOULD: Yes.

Mr. Tilley continues reading from actuary's report:

Q.—Then the report of the auditor follows. I will put in a copy of the by-laws, and it should be noted that number 8, under the heading of "Duties of Officers should be amended by adding to section 5 as copied the following. "The manager shall receive a salary of $2,500 per annum, and also a commission or renewal interest of $1 per each $1,000 of insurance in force at the end of each year, the said commission or renewal interest to be payable annually to the said manager, his executors, administrators or assigns as long as the said insurance remains in force."

—Copy of by-laws filed as Exhibit 282.

Q.—I will not read the whole of the by-laws, but I will refer to the ones I think should be mentioned. By-law number 2 governs the annual general meeting of the company. It shall be held on the 3rd of February in each year beginning after 1904 at the hour of 11 in the forenoon for the reception of the annual report and the statement of the affairs of the company and for election of directors, and for all other business—is any notice necessary to call that? A.—The annual meeting, we give thirty days' notice.

Q.—There is nothing in your by-law governing that? A.—I think so.

MR. HUNTER: It is only in the case of special meetings, the date of the annual meeting is fixed.

MR. TILLEY: "Special general meetings of the shareholders and directors" (reads by-law down to the words "requisitionists").

Q.—Mr. Hunter asked me to bring out the fact that although the by-law does not require notice to be sent to the shareholders of the annual meeting that you have sent out thirty days' notice of the annual meeting? A.—We always have followed that rule.

Q.—Sent it to the participating policyholders as well? A.—We have always published notice in the newspapers and have always circularized the policyholders and shareholders by mail.

Q.—I wish you would let me have one of the notices, take one of the last annual meeting? A.—Very well. There is one filed.

Q.—By-law number 3 governs the proceedings at meetings and under section 3 that by-law, "Every instrument of proxy shareholders for general or special meeting shall as nearly as circumstances admit be in the following form or following effect: (Reads.) That proxy to be signed by a shareholder does not contain any provision preventing it coming into full force and effect the minute the shareholder wants to cancel it? A.—You are reading the policyholders there?

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q.—No, the shareholders; now we come to the policyholders'; "The Sovereign Life Assurance Company of Canada" (reads from policyholders' proxy) that means delivered to Mr. Hoover, does it not? A.—Or the Manager.

Q.—I am taking it for the present? A.—True.

Q.—Tell me why a clause was inserted there that the policyholders' proxy should not come to an end immediately; supposing he said, "I don't want Mr. Hoover or any person else to act for me any longer," why could not he cancel it at once? A.—Without giving thirty days' notice.

Q.—Yes, why should you act for me if I am a policyholder a day longer than I wanted you to? A.—The object of that is to have the affairs in order at the annual meeting to prevent confusion, to prevent stampede or anything of that kind, in the interest of some disaffected person who might come in on the morning of the annual meeting and create a disturbance; if they are filed thirty days in advance they can all be tabulated.

Q.—This does not say a word about filing? A.—It does if you read on.

Q.—No; this part says it shall stay in effect thirty days after notice has been given terminating it, and in the meantime you can call a special meeting and do anything you want to, voting on these proxies; what is the reason for such an absurd provision in your own favor? A.—It is quite necessary sometimes.

Q.—In case of stampede? A.—That is a standard form.

Q.—I never saw such a form before? A.—Have you looked into all forms?

Q.—I have never seen such a provision as that in any proxy before? A.—It is quite proper.

Q.—Was that put at your request? A.—No. I think we adopted the by-laws of some other company.

Q.—If you could give me any precedent for that, except possibly some other company you have been in, I would like to have it; did Mr. Hunter draw these by-laws? A.—No.

MR. HUNTER: Yes? A.—He drew part of them and I drew part of them, perhaps I drew that particular paragraph.

MR. TILLEY: You do not know whether you did or not? A.—I will take the responsibility.

Q.—You have to take the responsibility for it, I was simply asking you whether you knew whether you drew it or not? A.—It is quite probable I did; I will assume full responsibility for every transaction.

Q.—It reads this way: "Shareholders or policyholders," etc. (Reads clause.) So that no agent or Provincial Manager could come to the meeting and vote for policyholders? A.—No.

Q.—What is the reason of that? A.—To prevent stampede, to prevent trouble the other companies have experienced in the years gone by.

Q.—Would not it be better to wipe out the power to vote entirely rather than to hedge it around by so many conditions in favor of the person who has the proxy? A.—An agent can go around and get proxies and come in at the annual meeting and kick up quite a disturbance if some of his friends are not elected to the Board.

Q.—That is what has been said by some of the others, that the agent who is in personal touch with the assured— A.—The agent controls the business.

Q.—An agent can get proxies and hand them over to any person else, but he cannot use them himself? A.—In our company.

Q.—And I suppose the agent is the best man to get proxies? A.—We do not require it in this company.

Q.—The agent is the best man to get proxies? A.—I presume I could say yes. If I wanted to get proxies and it was necessary to get proxies I think the agent could get them.

Q.—And the man that can get them from the agent is one that can do the agent the most favor I suppose? A.—I do not know, I won't say that.

Q.—Who fixes the salary for agents in your company, or the commissions? A.—That is a matter for the Board.

Q.—I have not seen any reference to it in the Board minutes? A.—I think by resolution they gave me that authority.

Q.—You have the authority? A.—Yes; the contracts are first made with the agent and then approved by the Board.

Q.—Where is the record of the approval? A.—You will find one or two of our prominent contracts are approved.

Q.—But we have it here in other companies that periodically contracts with agents come up for confirmation by the directors, do you observe that rule or do you not? A.—Not where

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

I have a specific instruction and authority to employ them.

Q.—In this case you had the specific power and authority to fix the agent's remuneration, have you not? A.—We will say yes, certainly.

It depends on the kind of contract you are making with me.

Q.—To work as agent of the company, solicit policies? A.—We will say at $100 a month.

Q.—Raise him up a little if you think he deserves it, that is all in your hands? A.—Quite proper.

Q.—Or put him down if he does not deserve it? A.—Yes, I have the reputation of doing that, and some of my agents do not like it.

Q.—That is the power that is put in you by the directors? A.—The making of contracts is left as a matter of course with the director, he is the man behind the gun, he is the man directing the institution, he is the man who makes it a success or a failure, he is the man who should have that authority and no one else.

Q.—Is that all? A.—Subject to approval of the Board of Directors.

Q.—He decides what should be done —your directors have placed that power in you? A.—There is a by-law there if you will read that.

Q.—It shows that? A.—Yes, I think so.

Q.—It is quite in your power if agents do not supply you with proxies, if you want them, for you to alter the terms of their agreement? A.—No sir.

Q.—Why not? A.—Because I would not do it.

Q.—It is in your power I am asking you? A.—That power would not be abused in my hands.

Q.—I am talking of the power there? A.—It might be in the hands of an unscrupulous man, it is possible for a man to do anything, you can go out and commit a murder if you want to, we cannot prevent you.

Q.—I am asking you if that power is not reposed in you by the by-laws of your company? A.—No, not to do a deed like that.

Q.—Why not? A.—Because I have got too much honor to do it.

Q.—That is the only restriction on you, is your honor? A.—I stand quite a percentage on that point in my career.

Q.—That is the restriction, is it not? A.—You cannot restrict a man from doing anything, no matter what it is, unless you chain him up in penitentiary.

Q.—You cannot restrict a man from doing what he has specially committed to him by the by-laws, that is what I am asking you? A.—We are not going to commit a crime, we are not going to do anything against the interests of this corporation.

Q.—We will try and get a broad view of the whole thing when we get to the end of the by-laws. Bylaw number 4, sub-section 2 is (reads). A. —I am glad you asked that question.

Q.—I have not asked you any yet? A.—I will explain it; the object is to enable the names of all the shareholders nominated for directors to be included in the individual notice sent to the shareholders and policyholders, if there is to be a contest, to enable them to vote intelligently either in person or by proxy. That is the sole object.

Q.—We have it there for what it is worth. (Reads sub-section 4 of bylaw 4). That was a clause put in I suppose to allow the Board to increase the Board of Directors if it thought it desirable at any time, not over a certain number of directors? A.—That is all.

Q.—For instance, if some prominent persons took stock in the company and you wanted to put them on as directors you would have power under this provided you had not already filled up all the vacancies? A.—Yes.

Q.—"Each director shall be paid out of the funds of the company," etc.—what sum has been fixed be resolution? A.—$5 per meeting, and the travelling expenses of the directors out of town.

Q.—Local Boards are appointed; is there any arrangement whereby members of local Boards or any of your Boards get a percentage on the business written in their districts? A.—Yes.

Q.—Where is that? A.—Several localities.

Q.—Where is it shown, where is the arrangement set out? A.—In opening up districts—

Q.—In your books where is the arrangement, where is the by-law governing it, or the resolution? A.—You will find it there in the by-laws, in by-law 5 you will find, number 8.

Q.—That is what I was referring to, and I was asking you whether under that by-law the directors had arranged that Local Boards should get a per-

47th day, June 26, 1906.

(A. H. Hoover, Ex'd.)
Sovereign Life,

centage of business written in their districts? A.—Yes, the first year only though.

Q.—Where is that shown?

MR. GOULD: I think you are misunderstanding Mr. Tilley's question; you had no Local Board of shareholders? A.—Shareholders, no.

MR. TILLEY: Have you Local Boards of policyholders? A.—Yes, that is what I thought you were driving at.

Q.—Where are the provisions relating to Local Boards of policyholders? A.—You have it there in the minutes.

Q.—Do you know where it is Mr. Allen?

MR. ALLEN: No, but it is in the minutes.

MR. TILLEY: Then you will look that up? A.—I can tell you all about it if you give me a chance.

Q.—Very well? A.—We find it convenient to interest prominent influential men in this company, as all other life insurance companies do in their inception and we have arranged with parties throughout several provinces to act as Provincial Directors of this company in return for their influence and co-operation in establishing the company's business, we have arranged to give them a commission of 10 per cent. on the first year's premiums only upon the business written in their respective localities. That commission is discontinued the second year and following years. It applies only to the first year. We find that has worked very advantageously, and in all cases we had charged it against the agent in that district, it does not come out of the company, it comes out of the agent's contract, that is a charge against the agent's commissions. In all cases these men have paid the first year's premium for their insurance and there has been no rebating among them. As a result the company has secured the first year's premium. We have got business at about in some cases 25 per cent. instead of giving it away, cutting and slashing as the other companies have testified here.

Q.—How many Provinces have you these Boards in? A.—We have Provincial Boards in New Brunswick, Nova Scotia—

Q.—How many in New Brunswick? A.—There is only one, a number of individuals.

Q.—How many on the Board? A.—I think we have twenty perhaps in New Brunswick and about fifteen in Nova Scotia.

Q.—Tell me how many? A.—I would have to take time. It is a straightforward transaction from start to finish, and it works—

—Mr. Gould answers the questions until a change is indicated.

Q.—How many of those Boards are there? A.—One in New Brunswick, one in Nova Scotia, one in Prince Edward Island, and there is one in Manitoba.

Q.—Any in Ontario? A.—There are several in Ontario, none in Quebec.

Q.—How many in Ontario? A.—I would say perhaps a dozen.

Q.—Where? A.—In the different counties.

Q.—Tell me the Counties? A.—Peterboro, Durham, Essex, Middlesex, Northumberland and I think—

WITNESS: I wish we had Boards in every County.

MR. GOULD: Victoria and Haliburton are combined together as a Board.

Q.—Tell me where do you find the arrangement with these Boards when you want to find out what they are entitled to? A.—Mr. Hoover made arrangements with these men entirely.

Q.—Is it in writing?

—Mr. Hoover answers the questions until a change is indicated.

A.—Certainly; you have it among the correspondence and so forth we have filed with you; if you have not I will send and get one in five minutes.

Q.—You have not seen it at all? A.—I will tell you all about it.

Q.—I wish you would send and get it? A.—Very well.

Q.—What is the method adopted, do you communicate with certain persons in a new district and say that if you insure we will put you on the Board, was that the idea, you selecting the men beforehand as being representative men? A.—I suppose that is true; I will canvass you now to illustrate this point. I would say, "Now, Mr. Tilley, I have the pleasure of meeting you and saying to you that we are organizing a Provincial Board of Directors in Ontario, and you have been recommended to us as an influential man in your locality"—

Q.—That sounds right so far? A.—No, "We desire to add you to our Provincial Board. The consideration will be that you will take a $5,000

policy in this company and pay the first year's premium in cash. You further promise to send the premiums down to the head office annually so that it won't cost us anything to collect them. In return for that $5,000 policy we will make you a member of our Provincial Board of Directors and you will be entitled to receive 10 per cent. of commission upon each new policy written in your district for a period of ten years, the first year's premium only."

MR. GOULD: Q.—There is a mistake there, a share? A.—A pro rata rate, some man might have $10,000, in which case he would be entitled to twice as much as you.

MR. TILLEY: Q.—Supposing there are ten or fifteen men on this Committee, this 10 per cent. is divided amongst them, and when it is divided it is divided pro rata in accordance with the amount of the insurance they took? A.—Yes.

Q.—That accounts for the resolution that appears in the minutes at several places saying that the actuary shall make up what is due to the Provincal Board? A.—That is quite correct.

Q.—That is the only reference to it? A.—We issue a policy, and a contract under seal with the company to that effect and send it to each man.

Q.—That is in a particular policy? A.—That is a special contract outside of their policies.

Q.—I would like to be supplied with one of those? A.—I will give you one. I may say it has worked out very beneficially to the company and satisfactory to the insured.

Q.—That 10 per cent. is taken from the agent? A.—Yes, I only regret we had not a larger Board.

MR. KENT: Q.—This is a rebate really? A.—It is not a rebate, because the agent assumes it, it is charged against the agent.

Q.—The agent says "I have to pay this 10 per cent., or rather you keep it from me or charge it up to me"? A.—But the agent can write two policies under that proposition when he perhaps could not write one in the other one.

Q.—He looks at it instead of getting 50 per cent. on the first premium he must get 60 per cent.? A.—It does not cost the company the first year over 25 per cent., and that is what enables us to make such financial showing in getting our business and why it has stayed so tenaciously on our books; it is not the amount of business we write but the amount we keep good on the books and the cost of getting it. There is not a thng in that but will stand publicity.

MR. TILLEY: Q.—It is a pity you did not let it stand publicity? A.—You will not find any crooked work in connection with this institution.

Q.—The Committee of the Board: President, First, Second and Third Vice-Presidents are to be members, the seven directors are to form the Executive? A.—Another good thing, you should follow it up while you are right at it, is, that the Finance Committee, at their meetings, those minutes are read at the Executive meetings and adopted and amended as the case may be, and read again to the Executive and Quarterly Board meetings so that every Director of the company attending the quarterly meeting has read in his presence the Finance Committee's minutes, the Executive Committee and every meeting of the Committee.

Q.—The way it stands now it does not make any difference whether those Directors approve or disapprove? A.—Why?

Q.—Because you have everything entirely in your own hands? A.—That is the way it should be.

Q.—I do not see any virtue of reading it to these men? A.—I thought you were trying to earn your fees. There is really nothing in this, not a thing.

Q.—This by-law 6, sub-section 6, provides the minutes and the proceedings of the Executive Committee shall be copied in a book to be provided for that purpose, which shall always be open for the inspection of any Director? A.—That is right.

Q.—Was it necessary to provide that do you think? A.—Yes.

Q.—Do you think a director would not have the right to walk in and see any books anyway? A.—This would make it plain so that he does not fear at all asking for it.

Q.—Have you made it equally plain that any director can walk in and demand a list of policyholders in the Company? A.—Yes, you can have a list.

Q.—Is that set out any place as to the right of that? A.—No.

Q.—There has never been any application for it? A.—No, it would only create a little suspicion that perhaps you were a designing man, the same

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

suspicion that would be created if you came to the office for a policy.

Q.—I suppose any person who makes a personal application for a policy is treated with suspicion that he knows he will be able to reap the benefit of the policy, or his executors or administrators will be able to reap the benefit of it very soon, in other words he knows he is in ill-health? A.—I have been in the business for 26 years and only one man ever entered the doors with that request.

Q.—Did he get a policy? A.—He got one on his wife and was afterwards arrested for murdering her, tried twice here in the city and finally let go, the jury failed to convict.

Q.—The by-law as to the Managers position we will not deal with again, because it is all set out in the agreement, which is more complete. Then after the by-laws this agreement is set out with Mr. Hoover, "Agreement to be entered into by the Company with Mr. Hoover as Manager submitted by the Provisional Board" as part of its report was then read as follows: "Memorandum of Agreement," etc. (Reads agreement, a copy of which is to filed as exhibit 283).

Q.—The bond has been supplied and the compay has paid the premium? A.—Yes, annually.

Q.—(Concludes reading the agreement)? A.—A good contract for the Company.

Q.—You being the Company: it was moved by Mr. Hornibrook, etc. (Reads) that covers the work done at the inaugural meeting of the Company A.—Yes.

Q.—Considering the Provisional Directors report, considering the Actuaries report, considering your contract, approving the contract and approving of the appointment of auditors and directors; the agreement was drawn by Mr. Hunter? A.—Yes.

Q.—He was the solicitor for the Company? A.—He was instructed at that time, he was the Company's solicitor; he was instructed by the Provisional Board to draw that contract.

Q.—He was the Company's solicitor? A.—Yes.

Q.—Had he been your solicitor before? A.—The Company's solicitor, the Company paid him the fee.

Q.—Before he was the Company's solicitor, was he your solicitor? A.—Only in talking with him about the organization of the Company. Do you want me to tell you what he said?

Q.—If I do I will ask you.

JUDGE MacTAVISH: Q.—Did you have a solicitor representing you in these negotiations as to the terms of this agreement? A.—No, sir; the agreement is my handiwork.

MR. TILLEY: Q.—It was merely put in shape by Mr. Hunter? A.—I told him what I wanted and he drafted it and after trying two or three times he drafted it as I wanted it.

Q.—I suppose it would take two or three efforts to finally get it into this shape? A.—It got in that shape and was adopted unanimously at the shareholders meeting.

Q.—Sure; everything was unaimous here. Tell me why you saddled the Company with an agreement extending throughout your life or as long as you wanted to keep it, unless it is terminated by a six months' notice, and that can only be done at the end of six months and the notice must end at an annual meeting? A.—I do not like the word saddled because it is not the case.

Q.—I like it? A.—I will explain. In organizing this Company I foresaw the task in front of me, and when I consulted my solicitor he told me I would lose my little home if I went into this business, that there had been two or three Companies attempted to be formed and had failed to get organized, one man had committed suicide, and that was the condition of life insurance when I started the organization of this institution. He advised me strongly against it. I told him I could see daylight through this proposition from start to finish and that I could organize a Company, one of the best in this country, and I wanted him to draft the articles of incorporation which he did. I advanced $3,100 of my money, paying all the expenses, assuming all the responsibility before there was ever a dollar paid into the funds of the Company. Not only that, but I worked a whole year and gave my services to the Company gratuitously. Instead of taking a salary from the Company, which I could have done, because I had been earning prior to my attempting to organize this Company between $5,000 and $6,000 a year and could have got it from this Company instead of doing that, I knew that the Company could not be organized and pay excessive salaries, that my services must be paid for later on, and instead of bleeding the Company, taking a large sum of

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

money which they could not afford to pay——

Q.—At once? A.—I worked for one half what my services were worth, took the risk and assumed the responsibility. For the first three years I worked sixteen hours a day establishing this company, and I think it stands to-day in a financial position that no other Company, save one, has ever reached among the last ten or twelve Companies organized. I plead justification to everything that has been done. I knew to do this that I might break down; my only thought was to save something for my family.

MR. LANGMUIR: Q.—You say that this contract or agreement was a good one for the Company? A.—Yes, they can well afford to pay it.

Q.—Will you tell me why such pains were taken to keep it secret from the shareholders and the policyholders and this Commission? A.—There has been no attempt. It is spread wide open on the minutes and if there is any attempt I am not to blame for it. It has been against my wishes, there is no concealment in this institution, you can turn the limelight of publicity on it from start to finish.

MR. KENT: Q.—If the policyholders and public generally had access to the books and the minutes, we would understand the explanation? A.—It is the best contract that can possibly be made with an Insurance Manager, it is the best contract that can be made with an agent. I state that here without fear of successful contradiction.

MR. LANGMUIR: Q.—A good thing should always be made public? A.—An agent employed on a paltry ten or fifteen dollars a week salary with nothing to work for you cannot bring out the best efforts of that man; you have to put something in front of that man to bring out his latent powers, to produce something, and what this country wants is men who can produce something; we have got all the absorbers we want; we want producers.

MR. TILLEY: Q.—You certainly produced something in this contract? A.—The best contract for an agent is the contract he can work for, and give the agent something to hold him up and then give him something to work for in future—the man who works for his stipend from year to year is a remittance man and he is not worth his salt.

Q.—But he ought to have his contracts made so that the pay goes on to his heirs, executors, administrators and assigns, so long as any person that comes into his Company lives, that is what your contract amounts to—any policyholder that takes a policy while you are Manager you get One dollar on every thousand dollars from that man so long as he lives, whether you die in the meantime, cease to be an agent or anything else happens, whether you resign or whether you are discharged? A.—It is only a fair equivalent for the services performed. Supposing I had failed to establish this Company ——

Q.—You are afraid that the policyholders and shareholders of this Company would not have the same idea of your services as you did? A.—No sir, I am going to submit a copy of that—

Q.—Tell me how the policyholders and shareholders can get rid of you? A.—The contract is only made for 6 years.

Q.—No, the contract is good forever but it can be terminated at the end of six years? A.—Yes, it can be terminated at any annual meeting. I will say this, if there is any considerable number of shareholders or policyholders of this Company want this contract terminated, I will terminate it in 24 hours.

Q.—Don't say such an idle thing as that, after you have gone to all this trouble to get that contract in shape? A.—There is no reason now, my services are worth $10,000 a year and I can get it.

Q.—If the shareholders want to get rid of you they must wait in the first place for the six years? A.—Six, three years of which have gone by.

Q.—They must wait for another year after the sixth year, because they must give you six months notice? A.—We will admit that.

Q.—Then before that can come into effect they must give you six months notice that at the next annual meeting they are going to pass a resolution? A.—Yes.

Q.—They cannot pass a resolution to dismiss you themselves, the Directors cannot? A.—No.

Q.—You must get six months notice of that? A.—Yes.

Q.—You have provided that you shall have access to the policy regis-

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

ters at all times whether you are in the Company or out of the Company? A.—Exactly.

Q.—And what policyholders have votes? A.—Yes.

Q.—And you have the agents all under your control? A.—No, I do not.

Q.—Do you mean to tell me that you believe that the shareholders and policyholders of this Company can ever dismiss you? A.—Yes sir, they can dismiss me by any considerable number desiring it.

Q.—I think you will be the most surprised man in Toronto if they can? A.—You think so?

Q.—Yes? A.—I think it is a good contract for the Company and quite a proper one for six years.

JUDGE MacTAVISH: Q.—In reference to policyholders taking part in the business of the meetings of your Company—were you going to leave that, Mr. Tilley?

MR. TILLEY: I was going to bring in another contract of the same kind, but I would rather your Honor would go on with it.

JUDGE MacTAVISH: Q.—Have they taken a prominent part in the meetings of your Company? A.—They never do; they never do in stock corporations; they do in mutual Companies I believe.

Q.—I am speaking of this particular Company, the Sovereign Life, your experience is the same as others? A.—My experience is they do not.

Q.—Have you taken any pains to obtain proxies from policyholders? A.—No.

Q.—Do you hold any proxies from policyholders? A.—Yes sir.

Q.—How did you get those? A.—30 days prior to the annual meeting we send out a notice by mail to the shareholders and policyholders. That has been filed here. We say to them, calling their attention to the date of the annual meeting, requesting them to be present, and we ask them in the event of their inability to attend to kindly fill up the proxies so that they can be represented.

Q.—That notice is accompanied by a blank proxy? A.—Yes. I think out of 2,000 members there are about 750 have returned proxies.

Q.—Policyholders? A.—Yes — no, out of about 1,200 I think the number is. The actuary says there are 739 proxies filed out of $1,800,000 of insurance.

Q.—Can you give us the number of participating policyholders with policies of over $1,000 in round figures? A.—This little pamphlet we have gives the amount of insurance.

Q.—At all events 739 policyholders are represented at your annual meeting, and they take a very important part in the deliberations of the annual meeting through their proxy I have no doubt, or do they? A.—We never have voted on proxies at the annual meetings.

Q.—Who is the proxy? A.—We have never issued proxies at the annual meeting.

Q.—The question was, who is the proxy? A.—Myself, and in the event of my inability to attend, the Executive Committee of the Company—quite proper and correct.

MR. TILLEY: Q.—Are those proxies in the form given in the by-law? A.—Yes, I think so. Did you desire to know the amount of participating and non-participating business?

JUDGE MacTAVISH: No, the number of policyholders with policies of over a thousand dollars.

MR. TILLEY: Q.—The Directors are the only persons that can give you the six months' notice? A.—Yes.

Q.—The policyholders and shareholders cannot act of their own motion at a meeting? A.—If you put it that way we will say no.

Q.—And policyholders attempting to revoke those proxies they have given to you, even after the policyholder had changed his mind and did not want you to act, you could say to him "I am still going to act for 30 days and do what I please with this proxy"? A.—Then we get right back on the murder theory.

Q.—Almost: You can even call a special meeting of the shareholders? A.—I think I could.

Q.—If the policyholders commence to revoke these proxies you could call a special meeting, hold a special meeting, vote against their wishes, all within the 30 days that their proxy remains in force for you, why they do not want you to act? A.—No, I could not.

Q.—It would be only honor that would prevent you doing it would not it? A.—I believe there is a little old fashioned honesty in the land, and I think there is a goodly amount of it that trickles through the veins of the management of the Sovereign Assurance Company.

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q.—I am asking you, that is all that there would be to prevent you? A.—You cannot prevent a man from doing anything if he makes up his mind to be crooked.

MR. KENT: Q.—What part of the meeting do you consider the most important—it was stated just now you did not consider the question of your engagement as being of any importance whatever? A.—Not specially, because the only thing I thought was I might break down in the work I had set out to do.

Q.—I was wondering right along which part you considered the most important, will you just let me know? A.—In the organization of the Company?

Q.—Of all the transactions at the meeting of which those minutes have just been read, which do you consider the most important? A.—The most important was the organization of the Company, and then I had my whole heart set upon the successful operation of that, and the contract was a side issue.

MR. TILLEY: Now, Mr. Hoover, besides the Sovereign Life, you have other interests that you are carrying on? A.—I have an agent's commission contract, from another company, yes.

Q.—From another life insurance company? A.—Yes. That was earned prior to this.

Q.—And you have a large interest in a fire insurance company? A.—Yes.

Q.—You are organizing one? A.—Yes.

Q.—Called the Sovereign Fire Insurance Company? A.—Yes.

Q.—Then you have some patent medicine affair? A.—Oh, that don't amount to anything. I have a little money invested in something of that kind.

Q.—You don't give that any personal attention? A.—Oh, that doesn't require any of my time.

Q.—But the fire insurance does? A.—A little of my time, yes.

Q.—What stage is that company in? A.—That company has been successfully organized and now prosecuting business successfully.

Q.—It has a license? A.—Yes. Very successful.

Q.—Are you the President of it? A.—Yes.

Q.—Formed on the same lines as this, substantially? A.—No.

Q.—Have you the control of that? A.—No.

Q.—In the same way that you have of this? A.—Oh, control, I don't know what you mean by that. There are no policyholders in that company.

Q.—There are shareholders? A.—The shareholders control that company absolutely. I held the proxy vote at the organization meeting and hold it yet.

Q.—Is the proxy built up on the same principle as this? A.—Practically.

Q.—Is the business of the Sovereign Fire carried on in the same place as the business of the Sovereign Life? A.—No.

Q.—Different offices. The next building.

Q.—You are paid a salary in connection with your Sovereign Fire? A.—Yes.

Q.—What salary is that? A.—$1,200 for the first year.

Q.—What is the basis of it? A.—Thereafter?

Q.—Yes. A.—That is to be fixed by the directors. $1,200 was voted to me for the first twelve months and the balance arranged for at the expiration of the year.

Q.—It has not been fixed yet? A.—No.

Q.—Does that require as much of your time as the Life Insurance? A.—Oh no, very little of my time, we have a general manager.

Q.—You have a general manager for the Fire Insurance Department? A.—Yes.

Q.—But there has been a good deal of work, I suppose, in organizing the company? A.—Been some. Now, I understand what you are coming at and I will tell you in advance, so as to save time.

Q.—That is very good of you, and it will be the first time you have saved to-day? A.—In making the contract with the life company I did not stipulate to devote my whole time to the company.

Q.—Where is the exception to that in the contract? A.—It isn't there.

Q.—Where is it if it is not there? A.—It was distinctly understood that I was not to do it.

Q.—What was understood about that? A.—It was understood by the Board when I made the contract, and there was no mention of it that I should devote my time exclusively.

47th day, June 26, 1906.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q.—There is nothing in this contract relating to that? A.—No sir, I reserved the right to organize another company if I want to, and I may do it, I expect to do so in the next six months.

Q.—Another life insurance company? A.—Not a life insurance. I only want one life insurance company.

Q.—You found the market a little better supplied than you anticipated? Probably Mr. Hunter was nearer right than you thought? A.—A man organizing one life insurance company I think has done sufficient.

MR. HUNTER: Mr. Hoover was able to get subscriptions to the whole of the capital stock. I thought that would be impossible at the outset? A.—There is nothing in that, Mr. Tilley.

Q.—Then you were agent for the Covenant Mutual for some time? A. —I used to be a soliciting agent for the Covenant Mutual and I placed, I think, about two million and a half of business on the books at the time that that company, through its failure to become re-incorporated as an old line company, amalgamated with the North Western of Chicago and went out of business. That left us stranded over here because that concern had no license to do business here. The thing then to do was to take care of the business that I had placed upon the books and I did so by making a contract with the Home Life Company by which that company agreed to take the Covenant Mutual membership without a medical examination, date the policies back to the age when they joined the Covenant Mutual and pay a straight level premium at that age. The reserve, the length of time the policy was in force, the reserve that would have accrued had they joined an old line company was to be computed and a note given for the amount and that was to be deducted.

Q.—The Covenant Mutual business was done on an assessment plan? A. —Their business was upon an assessment basis.

Q.—So that the company had no reserve for its policyholders when they failed? A.—Not a dollar. It had a deposit with the Government.

Q.—Of course, to get a license, but it had no sufficient reserve that the old line companies have now? It was a pure assessment? A.—Pure assessment.

Q.—So that these policyholders in that company could not get re-insured and have their reserve transferred to a new company? A.—No sir, they could not have got it from any company on earth. My duty was to take care of that membership and I did so and as a result of placing the membership in that company without a medical examination, the beneficiaries under those policies have received thousands of dollars. I took care of everyone of them.

Q.—All due to your efforts? A.—Those who would not re-insure went up to the Government deposit, had their policies valued by the Department and the valuation of those assessment certificates ran from 30 cents a piece up; merely nothing. Those who transferred got a legal reserve policy and are enjoying it to-day, and for my services the Home Life contracted to give me 7½ per cent. of the agent's renewal.

Q.—Is that all? A.—And I think, $3 a thousand they paid for going out to see the members and transferring them.

Q.—Is that all? A.—That is all, I think so.

Q.—Didn't you get $2 more for expenses? A.—Well, $3 and expenses.

Q.—$3 and $2? A.—That would be the expenses then.

Q.—$3 and $2 and 7½ per cent.? A.—I will tell you in a minute. I have the contract right here, a straightforward transaction.

Q.—No person has suggested anything to the contrary? A.—My first duty was to take care of that membership and I did so. But I don't understand why this should be brought in here.

Q.—It will probably save you coming back when we examine another company? A.—It is entirely foreign to the Sovereign Life.

Q.—Absolutely? A.—Entirely, no connection with it at all. It was business I put on the books years before this company was organized. "Such travelling expenses shall not exceed the sum of $2 per thousand." That was it.

Q.—Will you let me see the contract? A.—Certainly. That is my creation to.

Q.—This contract is? A.—Yes. I think from my knowledge of contracts I have been able to save the Sovereign Life Insurance Company a good many thousand dollars.

47th day, June 26, 1906.

MR. KENT: At the expense of Mr. Hunter? A.—Oh, no.

MR. HUNTER: I can quite agree to that.

MR. TILLEY: This is the contract between you and the Home Life. It is dated at Toronto, February 2nd, 1900. (Reads Ex. 284.) There is something added headed Addenda, which was to permit the Home Life people to have their own agents get these applications for new policies from the old policyholders and then that would save them paying you $2 for expenses and you would get the $3 and 7½ per cent. for renewals? A.—That is right.

Q.—And in consideration of that the Home Life were not to charge you any more expenses than the $2 so that you would get that clear? Now how much have you received under that contract? A.—I would not be able to tell you without going to the office and figuring it up. If you have the items there I can tell you if they are correct.

Q.—I have figured out what it might likely be, but I would rather have your actual receipts if you can give me a memorandum of them and we will fasten it on to the contract? A.—I will hand that in. It is a matter of $6 or $7,000, does not that agree with your statement?

Q.—I cannot tell you that for I haven't it here? A.—That is for a number of years.

Q.—To-morrow morning will you bring with you what I asked for this morning? A.—I have it right here. A very nice document. You will see everything I have stated is right there. A clear specific contract.

Q.—This is the document that appoints some person to be a local director? A.—That is right.

Q.—(Read and filed as Exhibit 285.) Then you have got the proxy for the policyholders? A.—No, I think they are in my private desk. I will bring that over in the morning.

Q.—Are they not on the regular files? A.—Yes, we filed one with you.

Q.—You gave me a form, but I afterwards sent for the proxy register and apparently you have sent me just the shareholders proxy? A.—We have no proxy register.

Q.—The application for shares contains a proxy, but yours will be something separate now, the policyholders? A.—Yes we sent you a separate sheet containing a notice of the annual meeting and the perforated proxy.

Sovereign Life,
(A. H. Hoover, Ex'd.)

Q.—What I want is some actually filled out by the persons. I read the form, but I want to see some that are as they were completed. In fact the whole of them. A.—I want to just say a word if you will allow me in that connection. I made the statement that in the organization of this company I had advanced $3,100 in cash and gave my time for the first year gratuitously to the company's service. The stock that I have bought in the company up to the 31st December has contributed $2,870 in premium, which I will never get a dollar's credit for, I have given that to the company.

Q.—That is one of the matters that we will take up in the morning? A.—The premium?

Q.—Yes? A.—I shall be glad to discuss it with you, because I am very familiar with the facts.

(At 4.30 p.m. on Tuesday, 26th June, adjourned to 10.30 a.m. on Wednesday, 27th June, 1906.)

FORTY-EIGHTH DAY.

MORNING SESSION.

Toronto, Wednesday June 27, 1906.

—Examination of Mr. A. H. Hoover continued:

MR. TILLEY: Did you make up a memorandum of the payments that had been made to you by the Home Life? A.—I have not had the time to do so, and besides it would be a very troublesome thing to hunt up, because when payments have been made to me I have simply receipted for them.

Q.—How much do you say it is in the round sum? A.—Covering a period of how many years have you there?

Q.—From the time you entered into the agreement to date? A.—Up to last year, nothing had been paid this year.

Q.—Up to date? A.—The last payment received from the company was last year; nothing has been received this year.

Q.—What do you say it is then? A.—I could only approximate it, perhaps $7,500.

Q.—Does that represent your commissions and your expenses? A.—I think not.

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

Q.—Or in addition to your expenses? A.—Because the expenses were consumed by travelling men securing the transfers.

Q.—When you speak of $7,500 you mean $7,500 clear A.—I think about $7,500 has been received by me on account of the 7½ per cent. commission.

Q.—What has been received on account of the 3 per cent. commission? A.—There is no three per cent. commission.

Q.—The original three? A.—No, no, the arrangement was the company would allow $3 per thousand as a commission for transferring.

Q.—What did you get on the $3 per thousand? A.—That was consumed in transferring.

Q.—The whole of it? A.—I suppose so, it must have been, paying the agents.

Q.—I suppose that would be shown from the Home Life books, their payments to you? A.—Yes, it ought to.

Q.—I had not with me yesterday the papers relating to your application for a license by reason of some delay in the mail, I have the original papers here this morning and I will file them (marked as exhibit 278). The file commences with a letter from Mr. Hunter to Mr. Fitzgerald of January 8th, 1903, re Sovereign Life Assurance Company of Canada (reads letter). To that a reply was sent on January 12th, 1903, (reads). That letter indicated what was to be done, and then your solicitor took up the matter of perfecting the document necessary to take out the license? A.—He had full charge of that matter.

Q.—Mr. Hunter was never a director of the company A.—No.

Q.—Nor any officer in the company except solicitor? A.—No sir.

Q.—Then Mr. O. F. Rice, Manager of the Imperial Bank of Canada, wrote a letter to you on the 23rd January, 1903, as follows (reads). Have you the Imperial Bank pass book here? A.—I think so. (Produces.)

Q.—This is the Imperial Bank pass book of the Sovereign Life Insurance Company of 1903, and on January 23rd discount credit $29,000, balance $29,000, and immediately afterwards a deposit of $26,000 and balance of $55,000 by adding those two amounts together. $26,000 was transferred to that Imperial Bank account from the Sovereign Bank account on the same date, I think, January 23rd, 1903? A.—Yes.

Q.—That would be $26,000 of the amount that was said yesterday that has been collected up to that date, I think Mr. Allen said yesterday it was about $30,000.

MR. ALLEN: Yes.

MR. TILLEY: $30,000 had been collected by the company up to that date?

MR. HUNTER: Up to the 22nd December.

MR. TILLEY: Then would you compute what was received between the 22nd December and 23rd January when this application was made, Mr. Allen?

MR. ALLEN: Yes.

MR. TILLEY: And the $29,000 was the result of discounting the note of the directors? A.—Was the result of our private note.

Q.—In that way $55,000 was deposited in the bank on the 23rd January? A.—No, the discounted note made up with what we had.

Q.—I mean to say that you had that to your credit in the bank? A.—Yes.

Q.—Then on that date you apparently took out $45,691, that would be in payment, I suppose, for the securities that were to be deposited down at Ottawa? A.—I presume that is the fact, the entries will show.

Q.—That would leave in the bank account $9,309, which is the amount Mr. Rice mentions in his letter? A.—I suppose so.

Q.—So that you had the securities by that means, and you had the balance in the bank, then on the 23rd January, 1903, a letter from Mr. Rice to Mr. Hoover (reads) part of exhibit 287). Then follows a letter from a solicitor to Messrs. O'Hara & Company certifying to the validity of certain of the debentures, and also a letter from Mr. Hunter to Mr. Fitzgerald of January 26th, 1903) (reads). Then the next document on the file is a statutory declaration made by you before Mr. Hunter on the 26th January, 1903, and it was made in Ottawa; do you remember the occasion of making that declaration? A.—I have quite forgotten it.

Q.—Apparently a declaration had been made by Mr. Allen, and when Mr. Hunter went to Ottawa Mr. Hunter had to give this letter regarding certain debentures, because I suppose the superintendent required some solicitor's certificate, and that was typed in Ottawa, and on the same

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

day in Ottawa you were required to make a statutory declaration? A.—Quite possible, I think that is right, if you have it there.

Q.—The statutory declaration reads in this way: (reads) Sections 4 and 5 of the Act had not been complied with at that time, had they? A.—I thought so.

Q.—What reason had you for thinking so? By section 4, the company was compelled to have $250,000 of the capital stock subscribed and shall not commence the business of insurance until $62,500 of capital stock had been paid in cash?" A.—That was quite true.

Q.—"Into the funds of the company to be appropriated only for the purposes of the company under this Act. Provided further that the amount so paid in by any shareholder shall not be less than ten per cent. upon the amount subscribed by such shareholder." $62,000 had not been paid up to that date? A.—Yes sir.

Q.—Mr. Allen told us that up to the 22nd December only about $30,000 had been paid in? A.—But we selected notes that made the difference.

Q.—This section says paid in cash? A.—We paid those notes in cash, and had those notes and took the responsibility. We paid them.

Q.—Mr. Allen has computed the amount paid in between the 22nd December, 1902 and 23rd January, 1903, was $7,513.01.

MR. HUNTER: That would be apart from the $29,000.

MR. TILLEY: Q.—And add that to the $30,000 that had been paid in, would make $37,000 or $38,000 that had been paid in cash? A.—Yes.

Q.—That was not $62,500? A.—We had at that time I think about $50,000 in notes coming due, three, six and nine months, and we selected $29,000 of this paper that we knew was gilt edge. The directors advanced the money to pay these particular notes that were given to the company. Then when these notes were paid afterwards the directors were remunerated.

Q.—How much had you paid on your stock up to that date? A.—I am sure I could not tell you.

Q.—Ask Mr. Allen to tell us?

Mr. Allen answers the questions until a change is indicated:

A.—$2,500.

Q.—How many shares had he? A.—$2,000 on the stock and $500 on account of premium at that tme.

Q.—In the schedule that is sent to the Department at the same time you have got shares 408, amount subscribed $40,800. amount paid on the capital stock $10,200 of your stock, and you had only paid 2,500, how is that?

The questions are answered by Mr. Hoover until a change is indicated.

A.—I am unable to give you that explanation without looking it up.

Q.—I would like you to look it up? A.—You will have to get the explanation from the book-keeper.

Q.—That surely has been looked up since that time? A.—I have not examined the books.

Q.—That is the transaction that arises out of the $29,000 note that the minutes should have shown to us had been destroyed? A.—What is the amount?

Q.—I see the amount here shown to your credit in shares was 408, and another item of 25, and another item of 75, making in all 508? A.—What is the amount of the subscriptions?

Q.—It is not the amount of the subscriptions, I am asking the amount of your schedule; first you have 75 shares, then 408 and next 25, making 508 shares; the amount then would be $50,800? A.—25 per cent. of that would be $12,000, and ten per cent. of $12,000 is $1,200.

Q.—No no, here is what you have on this schedule as paid on those shares; you have on the 75 shares $1,500 said to be paid on them; on the 408 shares $10,200 paid up on them, on the 25 shares $625 paid on them, making in all $12,325, and you only had paid $2,500 on your stock? A.—Let me see that statement. Have you a statement there showing I have paid that much? That is quite correct, that represents the amount in cash and by note.

Q.—You had not paid that? A.—Either cash or by note.

Q.—Had you given your note? A.—I think so.

Q.—Do you know it? A.—I am quite sure.

Q.—Will Mr. Allen please show us the note? A.—The note was long destroyed.

The answers are given by Mr. Allen until a change is indicated:

A.—Whatever notes were given at that time on account of stock have

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

been paid up since, and the notes given to Mr. Hoover or destroyed.

Q.—Had you no book to show the notes? A.—No

Q.—Do you mean to say you had no record from which you could tell whether Mr. Hoover ever gave you a note? A.—I do not think that note is entered in the note book.

Q.—I am asking you whether your records would be supposed to show that note if he had given it?

MR. HOOVER: Up to that date—

Q.—Let Mr. Allen answer.

MR. ALLEN: I did not have any record of it.

Q.—So far as you know, Mr. Allen no such note was ever given? A.—I remember a note was given but it was not entered in any book.

Q.—A note was given by whom? A.—Mr. Hoover.

Q.—Personally? A.—Yes.

Q.—For how much money? A.—I could not tell you just now, in fact I could not tell you at all, because at that time the note was given to cover the amount that he held at that time on that stock.

Q.—At what time? A.—Before the subscription for the 408 shares I think.

Q.—Was that a note payable to the company, and do you swear you held that note and did not enter it in the books? A.—I did not.

Q.—Why did you not? A.—Because we never enter a note till it is paid.

Q.—You have no book? A.—Yes, I have a note book now in which all the notes are entered, that was at the commencement when I had no note book.

Q.—You had no note book for all these shareholders that were sending you in notes? A.—Not at that time, that was the commencement.

Q.—You had been taking subscriptions all during 1902 or almost? A.—Yes.

Q.—And do you say there was no record of the notes that the shareholders had given you? A.—I won't go so far as to say there was not of the whole of them.

Q.—The notes the company held were to be shown in that book? A.—Yes.

Q.—I think you should frankly tell the commission just what the true transaction was, because there is a declaration here made by you that does not look to be proper, and I think you should tell the Commission exactly, I want to know from you? A.—If you will allow me I will tell you just exactly all I know. At the commencement I had an ordinary note book which did not answer the purpose, afterwards I got a note book made, at what date I cannot say, I entered all the notes in that with the exception possibly of Mr. Hoover's as they came along; I kept Mr. Hoover's in the cash-box for no particular reason any more than I thought it might be changed, and when Mr. Hoover paid up his stock I returned the notes to him.

JUDGE MACTAVISH: What notes? A.—The note.

MR. TILLEY: You said notes; you pledge your oath to the correctness of that story, do you? A.—Yes.

Q.—What was the amount of the note? A.—I could not say.

Q.—About how much? A.—I would not like to say.

Q.—Anywhere within a thousand or two, tell me? A.—I presume it would be the amount Mr. Hoover owed.

MR. HOOVER: It is in there in black and white.

MR. TILLEY: You do not mean to say it is the amount shown there?

MR. ALLEN: I do not remember.

Q.—When did you get the note? A.—I have not had the note in my hands for some time.

Q.—When did you get the note? A.—I could tell you better about it if I could see the stock ledger, because that will give me some idea, it was in the fall of 1902, at what time I could not say.

Q.—It was kept in the cash box of the company? A.—Yes.

Q.—Was it treated as an asset of the company? A.—We did not treat any of those notes as an asset particularly until they were paid.

Q.—None of them at all? A.—No.

Q.—Did you discount any of them? A.—No.

Q.—Why did you not treat them as assets? A.—I do not understand what you mean by the question.

Q.—Why did you not treat that as one of the assets of the company? A.—It was an asset of the company I suppose, we did not show in our books any more than the note book, we did not put any of the notes through until they were paid; we held them for collection.

Q.—What was done with that note, just put in the cash box? A.—It was held there until it was paid.

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

Q.—When was it paid? A.—Last year.

Q.—What year? A.—1905.

Q.—How was it paid? A.—In cash.

Q.—Show me the items? A.—$3,-170.

Q.—Do you say that $3,170 on December 30th, 1905, was that cash paid to you by Mr. Hoover? A.—Yes sir.

Q.—Have you a note for that amount in your box? A.—No.

Q.—How much have you a note for then? A.—I think there was a former payment on account of this. Here is one.

Q.—But that is a debit? A.—There is a credit of $240.

Q.—That was not paid in cash, that was a transfer from Mr. Langley of his stock on which money had been paid for which he took credit? A.—We presume Mr. Hoover paid Mr. Langley for that; it is the same as cash.

Q.—There is a cash item next to it "by cash $75"? A.—Yes.

Q.—Do you know what the note was for on which this was paid, this $3,-170? A.—I cannot remember the amount of the note.

Q.—There is $100, when was it paid? A.—At the same time, or rather 31st December.

Q.—Did you give him a note then? A.—I forget sir; the matter was all settled there, and there was a general settlement, and Mr. Hoover paid up all there was coming to the company. I do not remember the transaction.

Q.—Here is a declaration you made: (Reads Mr. Allen's declaration, the first clause) (The declaration as part of Exhibit 287). Was that correct, that you had prepared this list from the books? A.—Yes.

Q.—"2. That the said list correctly shows the amount of capital stock subscribed for and the amount paid in thereon by each of the shareholders respectively"—do you say that was correct? A.—I presume it is.

Q.—Do you know it? A.—Why yes, if that is the list I made up it is correct.

Q.—And you say then it was correct for you to put there that Mr. Hoover had paid that amount in cash? A.—Does it show that?

Q.—Will you let me see that please? Shows declaration to witness.

Q.—Was that right? A.—Yes, I presume there were notes for that.

Q.—Did you know the section required it to be in cash? A.—No.

Q.—If you had known the section required it to be in cash would you have sworn it was paid in cash? A.—I could not.

Q.—Would you have? A.—I should not wish to.

Q.—Probably your declaration being defective in that regard Mr. Hoover was asked to make a declaration that the Act had been fully complied with; would you have sworn to that? A.—I do not understand the question.

Q.—From your knowledge of the books and the way the business was carried on would you have sworn that section 5. which required $62,-500 to be paid in cash, and each shareholder to pay not less than ten per cent. in cash, would you have sworn that had been done? A.—No sir.

Q.—Your declaration says that that is the amount that has been paid, you did not add the words "in cash," but Mr. Hoover's declaration says that the section had been fully complied with; that was not true, the section had not been fully complied with? A.—I do not know.

Q.—You ought to know from your position in the company? A.—I did not understand at that time; I presumed or understand that the notes and the cash were equivalent to cash, that is as much as I knew about it, and that is the reason that I signed the declaration.

Q.—Take the account of George H. White and tell me how much he has paid? A.—Sussex, New Brunswick, at what date?

Q.—January 23rd, how much had he paid? A.—$416.80.

Q.—You have him down here for $1,250? A.—There must have been notes again covering that, probably there were; I cannot tell here.

Q.—You could tell from the books you have whether there was a note? A.—Yes.

Q.—Will you find that out? A.—Yes.

Q.—Take Charles T. White? A.—$416.80.

Q.—You have him down here for $1,250? A.—The difference between that $416.80—there were two other items of $416.80 and $416.40, which undoubtedly were covered by notes, the total of those three make the total of the man's subscription.

Q.—Do you know that? A.—I could tell if I see my note books.

Q.—Will you have to go to search for those yourself? A.—I presume

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

so, I will have to search for the first one, the original.

Q.—Your office is right here near the building? A.—Yes.

Q.—It would not take you long to get them? A.—If they are where I can get at them, if they are kept in the vault downstairs we could not get at them.

Q.—We will have to have them; in any case those payments were not made in cash as the statute required? A.—No.

Q.—Then would you kindly get those now and we will leave that till you get them? A.—Very well.

—The answers are given by Mr. Hoover until a change is indicated:

Q.—You spoke yesterday about the premium on your stock that had gone to the credit of the company, what did you mean by that? A.—That meant that I had given the Sovereign Life Assurance Company that many thousands of dollars as a gift.

Q.—How did you come to do that? A.—Because we sold that stock at 25 per cent. premium and 33 1/3 per cent, premium, and 50 per cent, premium, advancing it from time to time and that money represented the premium I paid on my stock to the company; the company got every dollar of the premium upon my shares, and they got the premium upon the shares subscribed for by the directors; no man got a rake-off, no discount; all were treated alike.

Q.—You subscribed for 408 shares on December 22nd? A.—I made an over-subscription to help the company.

Q.—You made that subscription in order to make the subscribed stock— A.—$250,000.

Q.—It was not done then with the intention of paying for it? A.—If I could have raised the money.

Q.—I am not saying what you would have done if you could have raised the money? A.—But I held that since, I have acquired it since and paid for it.

Q.—At that time the intention was to subscribe for the amount necessary to make the subscribed stock that the Act required? A.—Yes sir, the Act required $250,000, and I subscribed for that number of shares to comply with the Act.

Q.—And then the intention was it would be sold out by the agents of the company subsequently? A.—I transferred some of the shares afterwards, the company got the benefit of it.

Q.—The agents of the company sold stock to individuals throughout the country? A.—Yes sir.

Q.—And sent in their applications to the company for so many shares? A.—Yes sir.

Q.—So that the company could either allot its own shares or those 408 you had subscribed for? A.—Yes.

Q.—And what these people subscribed for throughout the country were taking, from your holding and you transferred to them? A.—The excess from the number I paid for.

Q.—Bringing it down to what you still have? A.—Yes.

Q.—So that the idea was that 408 shares would be subscribed by you to make up the necessary subscribed stock; then the agents would sell those shares; the agent's charges for selling them were paid by the company? A.—Yes sir, and the company got the benefit of the excess in the price.

Q.—Why should not it? A.—I thought you were trying to show I got it.

Q.—No, you are speaking about premiums the company got on your stock, why should not the company get the premium on that, because it was the company's agents selling it? A.—It did not cost the company anything to sell it to me.

Q.—But yours was just a formal subscription to make up the subscribed stock? A.—Certainly.

Q.—So that it was the company's stock? A.—Yes.

Q.—There was nothing you gave the company in that? A.—Nothing wrong about the transaction whatever.

Q.—And there is nothing very marked about it one way or the other?

MR. HUNTER: Except he is virtuous, he did not take the commission on his own shares.

MR. TILLEY: No person would have thought of doing that? A.—If I had been made up like the ordinary man I should have secured my stock at par.

Q.—I did not think you would do that? A.—Other people do it, and you have not questioned them quite as severely as you have me, either.

Q.—How much premium has the company been entitled on stock it has issued, not of yours, but the whole of its stock? A.—Now you are ask-

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

ing me some questions that are really practical.

Q.—This little formality about the Department at Ottawa is technical? A.—Quite proper and correct, no harm done, I would do the same thing again, I am proud of my connection with this company, and what has led up to its success, and I defy you or anybody else to point out anything excepting perhaps an unintentional error in connection with the organization or management.

Q.—Now then the premium? A.—The premium received by the company has been $87,313.44.

Q.—That is the total gross premium received? A.—Yes; there are a few thousand dollars yet to come in.

Q.—The $500,000, the premium was $5 a share? A.—I am not familiar with it; whatever the books will show; there were a few shares sold at 20 plus $5 premium; it was costing us more than that to sell it; we advanced it to cover the selling cost.

Q.—There was some sold at twenty per cent.? A.—Yes, twenty plus $5.

Q.—Do you know how many there were?

MR. GOULD: 477 shares.

Q.—477 shares would bring a premium of $5?

MR. GOULD: Yes.

Q.—How many shares would bring a premium of six and a quarter?

MR. GOULD: Roughly speaking, the difference between that and 500. After $500,000 the premium was advanced to 33 1-3, and the last $250,000, 50 per cent.

MR. TILLEY: There is still something to come in in the way of premium? A.—There are a few thousand dollars outstanding.

Q.—So that the whole premium will be about $90,000? A.—Yes.

Q.—Show me where the account is for the premium on your stock; this book shows your stock, now where is the premium account? A.—It is here. When the book-keeper is here you will find it. It has all been paid, every dollar of it.

(Mr. Gould shows account to Mr. Tilley.)

Q.—I tried to figure it out from that account and I could not? A.—Are you satisfied.

Q.—I think you had better not ask the question.

Q.—You had an account in 1903, and again in 1904 for organization expenses? A.—The company had, yes.

Q.—In 1903 your organization expenses amounted to $23,651.47? A.—Yes.

Q.—And in 1904 they amounted to $13,191.49? A.—Yes sir, and in 1905 $3,177.95.

Q.—That completes it? A.—$40,020.91.

Q.—Are those all the organization expenses charged up now, or are there any more? A.—Yes, there will be no more to follow.

Q.—When you say organization expenses do you mean organization of the company in general, or do you include in that establishing an agency in a particular place? A.—Yes, it would include organization.

Q.—Will you have a permanent, what you might call a permanent organization account, running along from now on, for establishing new agencies? A.—No.

Q.—Supposing you open a new field next year, will you call that part of your organization expenses? A.—No sir.

Q.—You have drawn the line now? A.—That would be expenses of management.

Q.—I notice in 1903 you divide expenses between organization and profit and loss, in some cases carrying about 30 per cent. to organization and the balance to profit and loss? A.—Yes; we could only approximate it.

Q.—What I want to get at is what was the idea that was present to your mind when you were making the division, what mental division were you making of the expenses? A.—We had our stock, salesmen's salaries, and expense.

Q.—What would you charge that to? A.—Organization expenses, printing, stationery, clerk hire, postage, exchange and all that sort of thing went in. At the same time we were establishing agencies we were writing business and paying commissions.

Q.—So that it would be divided between the two accounts? A.—We had to the best of our ability to arrive at that approximately. We had to separate it the best we could, by charging practically a percentage of the office expenditure to the stock part of it and a percentage to something else.

Q.—And you made a division that you thought would fairly aproximate the amount? A.—Yes. We tried to arrive at an equitable percentage.

Q.—In respect of the items you carried $23,651.49 to organization ex-

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

pense, you carried $9,580.43 to profit and loss account, so that the two would have been together $33,231.90? A.—That is a matter of bookkeeping, and I would prefer you would go into that matter with the bookkeeper or actuary.

Q.—Roughly that would be so? A.—Yes.

Q.—In 1904 did you make a division somewhat in the same way, roughly approximating what it would be? A.—Yes.

Q.—I suppose the chief item in the organization account would be commissions? A.—No, stock selling was high.

Q.—That entry, stock selling commissions, is not that what that item covers? A.—No, that was all put in there as organization expenses, we paid salary and expenses—

Q.—In 1903 the way it is divided is this: Rent $470; office salaries $2,243.03; agents' salaries $4,575.83; exchange account $100; interest $530.39; postage, telegrams, etc., $200; travelling expenses $3,706; advertising $2,587.89; stationery and printing, $1,075.40; commission account $6,995.11; directors fees $171.95; sundry expenses $339.60; law costs $655.90. Then a substantial item there is commission account? A.—Yes.

Q.—That would be for selling stock? A.—A portion of it, and the balance agent's commissions on new business.

Q.—On insurance? A.—Yes.

Q.—You could not have that in organization account? A.—Oh no.

MR. GOULD: I would not be sure, but I think that is entirely stock selling commissions.

WITNESS: That is the organization expense account you are reading from, that would be the stock selling, establishing of the company's agents, printing, advertising and so on.

Q.—What were agents paid for selling stock? A.—We paid from one dollar per share up.

Q.—How high? A.—Some of our men cost us five and six dollars a share.

Q.—How much a share? A.—I think about $6.00 would cover the expense of our most expensive men, those who were not so successful.

Q.—Do you say you did not pay more than $6.00? A.—I do not think so, I do not think it averaged more than six.

Q.—I am asking you the highest you paid? A.—I do not think so.

Q.—You will swear that not more than six dollars was paid to an agent for selling stock? A.—I do not think it cost that.

Q.—Are you speaking of the average?

MR. HUNTER: Mr. Hoover is taking his expense and commission speaking of taking his expense and commission that the six dollars would cover it.

MR. TILLEY: You say the amount of the expenses and commission six dollars would cover that? A.—The highest salaried man I think the $6.00 would cover the expenses and salary.

Q.—Do your men sell stock on salary? A.—Part on salary and part on commission.

Q.—Then what commission did you pay? A.—One dollar per share up as high as five dollars.

Q.—How much higher? A.—Not any higher.

Q.—You say the average of salary and expenses would not amount to over $6.00? A.—I do not think so.

Q.—That would be six out of about $31.25 received on each share? A.—Yes sir.

Q.—That is $31.25 would come in to the company and the premium would go to the agent? A.—Yes. I am erring too high if anything in the cost of our stock selling.

MR. GOULD: The total organization expenses you will see by referring to the blue-books were forty thousand dollars practically; there were ten thousand shares sold in the company; that averages $4.00 a share.

MR. TILLEY: But besides that there are travelling expenses.

MR. GOULD: That is the total of the organization account, $40,020.91; that is everything.

Q.—Are all the organization expenses paid? A.—Yes.

Q.—Does that include a portion of any items that went to profit and loss that did not go along as organization expenses, or does it just include what the books show as organization expenses?

MR. GOULD: What the books show.

Q.—And that takes in rent, office salaries?

MR. GOULD: It takes in anything shown in this book.

Q.—So that that was about four dollars a share?

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

MR. GOULD: I will draw your attention to another account if you will let me.

MR. TILLEY: So that the organization expenses would be about one half the premium that was received on the stock?

WITNESS: About, yes sir; I think you are correct in that.

MR. GOULD: If you take these two accounts (account on page 170 and account on page 200) these will give it.

MR. TILLEY: So that the three items are $23,651.47, $13,191.49, $3,177.95. What about your own organization expenses that were paid to you, does that include those?

The questions are answered by Mr. Gould till a change is indicated.

A.—That is included in that $23,651.47.

Q.—That is when the payment was made to him it was apportioned, it was carried to organization expenses at that time? A.—Yes.

—The questions are answered by Mr. Hoover until a change is indicated.

Q.—Did you get any share of any agent's commission? A.—Not a dollar.

Q.—Either in selling stock or in getting policies placed? A.—Not one copper's commission on the stock or new business written.

Q.—There are two items of interest charged, on April 25th, 1903, of $339.49 and September 5th, 1903, of $190.90; can you tell me what they were in respect of, Mr. Gould?

MR. HUNTER: They would be in respect of that $29,000 note.

MR. TILLEY: What were the head office expenses of the Sovereign? A.—In the first year or now?

Q.—Now. We have not been given any salaries except payments out to directors and so on? A.—Are not they set forth there? The accountant, you mean, cashier, actuary and so on?

Q.—Yes; just your head officers?

Q.—At the present time their salaries? A.—The accountant receives $1,200. The Cashier-Secretary $1,200, the Actuary, I think, $1,100.

MR. HUNTER: That is one office, Cashier-Secretary.

MR. TILLEY: Do they do any business connected with your other company, the fire company? A.—No, not in office hours.

Q.—Outside of office hours? A.—Well, evenings, perhaps.

Q.—Do they come back evenings to do the work? A.—The accountant has in the evening and overtime and has received $25 a month extra from the other company for doing it.

Q.—Then you have only one policy in the Sovereign? A.—That is all the company will give me. They limit the right to $5,000.

Q.—When it gets over the limit they re-insure? A.—We accept policies for any amount and re-insure to protect ourselves. $5,000 is our limit.

Q.—The limit of risk? A.—Yes.

Q.—Where can I find your table of rates for the sort of policy you have? A.—I have it here. A card of rates prevailing at the time my policy was issued. If you look at the rate there of age 50 and look at my policy you will see it is the regular amount.

Q.—On this card of rates there is this statement: "Important notice. These special stock policies are not intended as a source of profit for the company. There will be no commission or renewal charge against them, the expense of management being limited to the small loading for crediting the premiums and investing the money which the company receives. They are offered as a favour to a few business and professional men in return for their influence in establishing the company's business. Confidential: 100 special stock policies for $5,000 issued by the Sovereign Life Assurance Company of Canada, Head Office, Toronto." How is it this was not sent to us, Mr. Hoover? A.—Mr. Gould, I think, included one. I think you have one.

Q.—No, sir, we did not get one of these nor one of the non-participating rates either? A.—There is no desire to conceal it, my dear sir.

Q.—There does not seem to be a very vicious desire to give it to us.

MR. HUMPHREY: I would not use the word "vicious" in that connection. A.—I want to ask Mr. Gould. Mr. Gould, did you include one of the stock policy table of rates at the time you sent over the supplies?

MR. GOULD: I included all the rates I had in my possession.

MR. TILLEY: Does that answer you? A.—You were not requested to exclude that in any way?

MR. GOULD: No.

MR. TILLEY: Did you have this in your possession?

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

MR. GOULD: No, I never had any cognizance of that rate at all. That rate was not in force while I have been with the company. This was in force before my connection with the company.

MR. KENT: Mr. Gould is not supposed to have anything to do with that.

MR. GOULD: It was before my time.

MR. KENT: It says those policies were to be issued to anyone who assisted the company? A.—We issued them to anybody.

MR. HUNTER: Those policies did not include an allowance for commission and could not be placed in the hands of the ordinary agents. Shareholders who wished took them and paid full cost. The rate was afterwards loaded and put in the hands of the agent.

MR. TILLEY: Have 100 policies been issued? A.—I think so.

Q.—Mr. Gould, can you tell us that?

MR. GOULD: The only thing I can say is that this policy was constructed and this card was out of use before my connection with the company.

A.—Now I will give you an explanation here that will give you all the information you want. After the company was organized we perfected this policy; we called it our stock policy. The object was to secure a number of policies for $5,000 and to secure a large premium income. The policy was made up to be $5,000 with $250 added annually therbafter for each premium paid for a period of 15 years when it became paid up for $8,750. My instructions to the actuary was to make no loading for expenses other than $3 per 1,000, for crediting the premiums. That carried with it an expense loading of $15; was it 3 or 3½, Mr. Hunter?

MR. HUNTER: $3 was, I think, the understanding.

A.—I am not sure whether it was $3 or $3½. If it was $3½ the loading for expense purposes would be $17½.

MR. TILLEY: Mr. Gould, have you ever figured out the loading on this policy?

MR. GOULD: I do not know anything about this policy. There is a stock policy issued now which is included in the card of rates which you have.

A.—Please don't interrupt me until I finish this explanation. These policies were placed in the hands of our men selling the stock. The stock man would say, "If you subscribe for a few shares of our capital stock, we permit you to obtain one of these policies for which the loading is $3 per 1,000, or $3½. There is no commission or anything of that kind." In one instance we got our stock sold for $2½ a share and by paying $5 a share the stock salesmen agreed to turn us in a $5,000 application free of charge and did so in a number of cases. So that we got our insurance cheap and placed our stock cheap. It all counted for the benefit of the company as a result of good management.

Q.—Now, how many of those were issued? A.—I don't know. We could have sold a lot of them, but the company can't do business that way; there is not loading enough in it to pay the expense requirements of the company. The agents working on a commission, we could not place that policy in their hands, but there was a demand for it and afterwards, a year or so later, these rates were loaded to provide for a 25 per cent. commission the first year and agents now place one of them occasionally, but the percentage is small and agents won't work for it.

MR. LANGMUIR: What is the premium on that policy? A.—The premium is high, at age 50 my premium is $407. Our premium income the first year was $51 per 1,000. The highest premium income any company in Canada ever secured, and we got it intact, there was no rebating, no commission, everything clean and that business is on our books to-day, the most satisfactory business we have got. There are no lapses.

MR. TILLEY: There would not be any lapses on a policy like that, Mr. Hoover. Now your premium at age 50, acording to this special card you got out, is $407.75? A.—Yes.

Q.—At the present time the premium on the same policy would be $441.79? A.—The difference representing agent's commission, the initial year.

Q.—The difference being $34? A.—That is what the agent would receive to write one.

Q.—Now then that makes a difference of $34 on that policy? A.—Yes.

Q.—And you say that $34 a year on that policy would represent a fair agent's commission. You don't mean that, do you? A.—It depends on how many could be written. I believe

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

that I could start out and make a lot of money at that commission rate, because I could put my heart into that policy.

Q.—At what rate? A.—At the rate you speak of.

Q.—To get $34 a year on each premium? A.—No, no, one year only.

Q.—But that is a permanent difference in premium between what you are paying and what the people are asked to pay now? A.—Yes, I know but it is all in that 25 per cent. that the agent retains the first year out of the gross amount.

Q.—The difference between the rate you are paying on your policy and what a person 50 years old would have to pay for the same policy now is $34 a year? A.—Yes.

Q.—And that runs throughout the life of the policy? A.—15 years.

Q.—Well, the life of the policy? A.—15 payments.

Q.—Now you don't say that that was left off simply to represent agents commission? A.—That is what the loading is for.

Q.—So that for that reason you did not need any loading on your policy? A.—Because we got them without paying a commission.

Q.—To what extent is that policy loaded by percentage or is it just a definite sum added per 1,000? A.—Well, I think that policy is loaded at 3 per cent.

Q.—On what table is it computed? A.—No, 3½ per cent. O.M. 3½ per cent.

Q.—Now, Mr. Gould, you say you did not compute it. Do you compute the reserve on these policies?

MR. GOULD: Yes, I reserve on 3½.

Q.—Then what loading would there be on that basis?

MR. GOULD: I can give you the net premiums on that.

Q.—Tell me the net premium and the loading, please. Then, Mr. Hoover, do you think you were justified in taking one of these policies when you say in your circular they are offered in return for influence in securing business? A.—Yes, because no other company issues one at that rate.

MR. GOULD: The net premium is $390.24.

MR. TILLEY: And you paid $407,-75. The loading is 4½ per cent? A.—You get the loading just as I stated, just a few dollars between the net and gross premiums.

Q.—What loading is usually put on net premiums for non-profit policies, to what extent are they loaded?

MR. GOULD: With Canadian companies the usual loading on an Hm. 3½ per cent. basis is put in some cases 10 per cent. and in some cases 10 per cent. and 41. It runs round 10 per cent.

Q.—Did any other directors get that class of policy? A.—I think so.

Q.—All of them? A.—No. A few of them issued. You will notice there is quite a lot of them issued up until the second year. No commission, and as a matter of course the boys didn't take kindly to them.

Q.—Mr. Gould, do you think those policies are loaded sufficiently to carry themselves?

MR. GOULD: That is a matter of opinion. If there is absolutely no expense, as Mr. Hoover states, I should think they ought to carry themselves.

Q.—As an actuary do you say those policies are loaded sufficiently to carry themselves and will not cost the other policyholders something to carry, because I am told there is no question about it at all.

MR. HUNTER: Better put that man in the box and let us hear what he has to say.

MR. HOOVER: You will find we have a certificate from our consulting actuary that it is sufficient.

Q.—I want your opinion, Mr. Gould.

MR. GOULD: The net premium is, I think, sufficient.

Q.—The net premium, that is if it is computed properly?

(Mr. Gould answers until a change is indicated.)

A.—If I were computing that to issue it now as a non-participating policy I certainly should load it higher.

Q.—That is not quite the question I asked you. If a company asked you, can we issue that policy loaded at 4½ per cent. and not lose anything by the transaction?

MR. HUNTER: Excuse me, Mr. Tilley; would you add to that question, "And pay no commission?"

MR. TILLEY: Yes, under the circumstances Mr. Hoover has stated. A.—Yes, I think they could, and pay no commission.

Q.—Do you know whether any commission was paid on these policies? A.—I cannot say.

48th day, June 27, 1906.

Sovereign Life.
(Thomas Allen, Ex'd.)

Q.—Can you find out? A.—The accountant perhaps could find that out better than I could.

Q.—Then Mr. Allen can you say whether any commission was paid on those stock policies?

MR. ALLEN: I think not.

Q.—Do you know?

MR. ALLEN: I am quite positive there was not.

Q.—Can you tell from the records whether there was or not?

MR. ALLEN: It could be told.

MR. GOULD: These policies, I would like to explain, were all issued before my connection with the company. I have found out more about the past books in working for you than otherwise.

Q.—Than in working for the company?

MR. HUNTER: They were issued under the advice of Mr. Pipe, who was the actuary of the company at the time.

MR. ALLEN recalled.

Q.—Now, Mr. Allen, did you get the information about the promissory notes? A.—I found the note books, yes.

Q.—What did you find? A.—I found a book down in the vault containing original entries of the notes. Any notes which you want me to refer to I will try to find.

Q.—What about the notes I mentioned to you, Mr. Hoover's note is not there? A.—No.

Q.—There is no note of his there? A.—A number of these men have the same name so I will have to refer to the stock ledger.

Q.—What date were those payments made, did you say, that were made when you returned the note? A.—This is the last of December, 1905, that the final statement was made.

Q.—In your annual statement to the Government did you include Mr. Hoover's note? A.—We don't include any notes to the Government in any statements.

Q.—Take the statement for 1903. You did not, in that annual statement, show any bills receivable, did you? A.—No.

Q.—What did you do with the bills receivable in order to get your return right, discount them in the bank? A.—No, there was not any necessity for that.

Q.—Did you treat them as an asset? A.—No

MR. HUNTER: I think they were put in as contingent assets, calls to be received. A.—It might be in that form.

MR. TILLEY: Is that the way you put them in? A.—No, they were not used. The notes were not used whatever. The collections were made on those notes.

Q.—Where is the asset that is represented by the notes in this annual statement? A.—There isn't any asset represented by the notes.

Q.—You must show that some place, you have not just discarded that item, because you had to bring that into your balance sheet? A.—The amount is in the collections made on account of capital stock.

Q.—Read the item. A.—Capital stock paid up $81,333.26.

Q.—That is a liability? A.—I know it is a liability, but it was collected.

Q.—Where in your assets is the item that represents those notes or their value?

MR. HOOVER: They were not put in. We did not do that, Mr. Tilley. We didn't show the notes, those notes are not cash.

Q.—Those notes were cash for the Government at Ottawa when you were making your declarations. (Mr. Gould answers.) A.—Not these particular notes. Those notes were paid, but the other notes were unpaid.

MR. HUNTER: Referring to the blue book, it did not appear at all.

MR. LANGMUIR: Have you a record of the notes that were selected to raise the $29,000 on? A.—No, sir, we have not. There was a list given to the Imperial Bank of the notes that we had at that time. There was no special list given.

MR. TILLEY: Have you a list of that list you gave the Imperial Bank? A.—No, I have not.

Q.—Who has it? A.—The bank has the original.

Q.—Then tell me about those notes I spoke to you about? A.—Charles T. White, a note for $416.80. I find a note here for $521 from Charles T. White.

Q.—When did you receive it? A.—We don't put in the date of the receipt. I just put in the date the note was made. It was a renewal. Made the 2nd December. It was paid on the 1st January and that must have been a renewal note of that amount there together with the interest in some form which I cannot tell now, but

48th day, June 27, 1906.

Sovereign Life.
(William H. Gould, Ex'd.)

there were some of those notes renewed, small portions of them.

Q.—I see your annual return for the Government takes the capital stock paid up as a liability? A.—That is all.

Q.—In that way you exclude on both sides the notes? A.—Yes.

Q.—So that in your book you were not treating stock paid by notes as paid up stock at all? A.—No, sir, in no case.

Q.—And you have not done it up to this case? A.—We never did it.

Q.—Except at Ottawa. I will put in the card that was handed me as the special rate in use at the beginning and also the one now in use so that the premium can be compared. (The two cards are now filed as Exhibit 288.)

I will go on with Mr. Gould in the meantime and you can look those up.

WILLIAM H. GOULD, sworn. Examined by MR. TILLEY:

Q.—Mr. Gould, you are a qualified actuary, are you? A.—I have had some experience.

Q.—Are you an Associate? A.—I am an Associate of the British Institute.

Q.—And how long have you been actuary for the Sovereign Life? A.—I came with them in May, 1904, to do their actuarial work.

Q.—Who had been doing their actuarial work before? A.—Mr. Pipe had been employed partially.

Q.—And who was Mr. Pipe? Was he a Toronto man? A.—He was in Toronto.

Q.—Was he in the office all the time? A.—No, I don't think he was, only part of his time.

Q.—Consulting or giving special assistance when required? A.—Yes.

Q.—You would not know anything of the rates originally fixed except what you have learnt from examination since? A.—No.

Q.—Then you have given a statement to the Commission showing how your premiums are loaded, as you have ascertained? A.—As I have ascertained, yes.

Q.—Has there been any change in the premiums since you have been in the company? A.—No. I may say that a change was in contemplation when this Commission was instituted but owing to the possible effects upon the business that has been held in abeyance.

Q.—Would the result of the re-arrangement of the premiums be to increase or diminish them, were they thought to be too high or too low? A.—Our idea of the non-profit business was to accept the life manager's rates.

Q.—How do the life manager's rates compare with the non-profit rates you have used? A.—Well, the life manager's have no non-profit rates, no recognized non-profit rates to my knowledge.

Q.—Would the result of adopting their rate be to raise or lower yours? A.—In some cases it would have lowered our participating rates; in others raised them slightly.

Q.—It would vary them all, probably? A.—Slightly.

Q.—And the average would be about — A.—It would leave them about where they are, I think, that is as far as premiums were concerned.

Q.—Now you say that all participating premiums in this company are based on the O.M. 3 per cent. and loaded according to what is generally known as Sprague's Method so as to produce the requisite loading for all the benefits and expenses required under the premium? A.—Yes. I have never re-computed those premiums so I cannot vouch for their accuracy according to that method, but I believe them to be quite satisfactory that way.

Q.—Then you say that in non-profit policies the same plan is pursued as with respect to the profit bearing policies? A.—Yes.

Q.—Except that the net premiums are on the O.M. 3½ per cent.? A.—Yes.

Q.—And what commissions are allowed to agents on the non-profit policies? A.—Two-thirds of what would be allowed on the profit.

Q.—And in the profit policies it is based on a commission of 75 and 10? A.—75 on a Whole Life Policy, 10 the second year, and 7½ after that.

Q.—On the higher premium policies those commissions would be lower? A.—Yes.

Q.—Then I will put in this statement of yours which explains the premiums. (Filed as Exhibit 289.) Mr. Hunter asks me to ask you whether computing the reserve on the basis of your net premiums and the table you use with the rate makes a higher or a smaller reserve than on the Government standard? A.—At the present

48th day, June 27, 1906.

Sovereign Life.
(William H. Gould, Ex'd.)

time using the O.M. table with 3 per cent. interest makes a considerably higher reserve. The O.M. mortality, as I explained yesterday, seems to be more favorable in the earlier years of life, so that there is provision made in the reserve for the higher mortality, so that in our company the mortality table militates against—

Q.—Against a young company? A.—Well, against a low reserve. Also the 3 per cent. interest makes a higher reserve than the 3½.

Q.—Before I pass from the other branch of the case, what did you find out about the interest with respect to what items were they paid? A.—I gave you a slip of paper which refers you to the page and to two vouchers in the voucher book there, 220. No. 1,039.

Q.—A receipt by the Imperial Bank for $190.90. Interest on a note. The amount of the note is $14,000? A.—That is before my time, that is 1903.

Q.—Do you know what that note was connected with, October 22nd, 1903? A.—Mr. Allen could explain that.

MR. HUNTER: It would be the renewal of the balance of the $29,000 directors' note.

MR. ALLEN: It was interest on the directors' note.

MR. TILLEY: Then the other page 128. An item of $339 interest, dated April 25th, 1903. That would be on the same note?

MR. ALLEN: The note was renewed for the balance.

Q.—So that both those items are with respect to interest on that note?

MR. ALLEN: Yes.

Q.—Have any estimates of profits been issued by you since you have been with the company? A.—Yes.

Q.—When was that done? A.—Shortly after I came with the Company. I think I filed a copy, a booklet.

Q.—Did you reduce the old estimates or raise them? A.—I reduced them a fair amount. I thought they were too high, I felt they could not be realized.

Q.—Have you your book of estimates here? A.—No. The agents were under instructions not to give an estimate if they could possibly avoid it.

Q.—Well, they were given instructions not to give a rebate too, were they not? A.—I presume so.

Q.—I see the book commences with this notice to agents: "The figures set forth in the following pages are considerably better than those granted by other companies in return for the deposits required. They are not estimates of exaggerations but are absolutely guaranteed and reproduced in the policy contract in black and white. The values stated are given in consideration of the actual premiums being received by the company and no deviation from the rates stated can be permitted or allowed. Every agent of the Sovereign Life Assurance Company is forbidden to pay or to allow or offer to pay or allow any rebate of premium in any manner whatsoever directly or indirectly. This rule will apply to any person who solicits or writes an application for the company whether he be a broker, general agent, manager or employed to work for the company in any capacity. The penalty for the violation of the foregoing rule shall be immediate dismissal from the service of the company." Is that rule observed? A.—As far as I am aware.

Q.—That no rebates are given, or agents are dismissed if they give rebates? A.—As far as I am aware. I am not conversant with the exact detail of crediting premium, but a number of our agents, in fact the greater number of them I think are payable by advances against commission on the stipulation of their returning to the head office the premium intact.

Q.—Well then, when they return the premium intact if they give a rebate they would have to show that rebate, and it would be shown in the books? A.—It would be necessary to show it.

Q.—Do those rebates appear in the books? A.—I don't think so.

Q.—Can you say Mr. Allen?

(Mr. Allen answers until a change is indicated.)

A.—There are no rebates.

Q.—Everything is covered by the Provincial Association; is that the only sort of rebate allowed?

MR. HUNTER: We would not admit that that is a rebate.

MR. TILLEY: Oh yes, Mr. Hoover admitted it.

A.—I don't know of any rebates whatever as to agents.

Q.—No allowance was made to agents who take insurance by way of payments to sub-agents? A.—No, because that comes out of the agent's own commission.

48th day, June 27, 1906.

Sovereign Life.
(William H. Gould, Ex'd.)

Q.—Then if you pay the agent by advances on condition that he sends in the full premium, must he not take the rebate off? A.—Not off the advance. That is his affair, nothing to do with the company at all.

Q.—You make him send in the full premium? A.—Every time.

Q.—And you do not give him back anything even if he claims he has paid something to a sub-agent? A.—No.

Q.—That is absolute? A.—That is absolute.

Q.—Have you gone so far as to dismiss an agent in your day Mr. Allen? A.—I don't know. I haven't had anything to do with that Department.

MR. GOULD: I may say here that there are some agents on commission, very few of them, and they may rebate. We cannot say that.

Q.—Now, have you your estimates, Mr. Gould?

(Mr. Gould answers.) A.—Yes.

Q.—December, 1904? A.—Yes.

Q.—Your estimates for whole life, 20 years, for estimated cash surplus, is what? A.—At what age Mr. Tilley?

Q.—At age 35? A.—It is $235.

Q.—And that is lower I notice than some of the older companies? A.—I think it is, slightly lower than some of them.

Q.—And that applies to your estimates does it, that in some cases you are lower, and in other cases higher? A.—I think we average about the same.

Q.—Average about the same as the older companies, but these estimates were not out; the old estimates were somewhat higher? A.—Somewhat higher, yes.

Q.—And you have made them to accord more with the older companies. Do you say then that you think a young company starting as this company is will be able to reach the same profits as the older companies? A.—If the company is conducted properly it should. The expenses of organization have been provided by the premium on capital stock.

Q.—You have a large amount of insurance that is loaded very lightly? A.—Well, that is non-profit insurance, non-participating.

Q.—But it makes up a substantial item of your insurance? A.—Yes.

Q.—And to that extent makes it non-profitable and takes away from the profit bearing policies? A.—I wouldn't say that, no.

Q.—We have discussed whether it actually takes any money away from those policies, but it forms a large block of your insurance, and leaves only a relatively small block for participating business? A.—Then that block that is the larger block should bear the larger share of office management expenses.

Q.—But it is not loaded for that? A.—I think it is loaded for office management.

Q.—Sufficiently for office management? A.—Yes.

Q.—Then these older companies are not measuring up to their estimates are they? A.—No.

Q.—Then do you expect that a new company started now will be able to do it even as well as they can? A.—Well, we ought to do as well at the end of twenty years as they do. These estimates are for twenty years.

Q.—I see your company has issued almost entirely deferred dividends? A.—Yes.

Q.—Has it issued any quinquennial? A.—No.

Q.—There is no quinquennial division of profits, and your policyholders cannot call on the company for a division of profits until what year? A.—We have a few ten year endowment policies. Those ten year endowments must carry ten years' profits with them. Then there are some of the other plans, some on the 15 year period, but most of them are 20.

Q.—The substantial business is on 20, so that it will be 1923 before they can ask for profits? A.—Before profits will be alloted to them.

Q.—Now in the meantime do you consider that those policyholders have any right to know what money is being set aside to them? A.—Not according to the charter and their policy conditions.

Q.—They must wait until 1923 before they are entitled to either any information about it or any payment of profits? A.—Yes.

Q.—Then they are to get what the company allots? A.—Yes.

Q.—Do you think that is a proper way to use policyholders? A.—Well, it is a principle that is in force in most businesses, that the directors have power to manage the business and to declare all the dividends to those who formed the company.

Q.—You would not compare an ordinary joint stock company with a life insurance company would you? A.—No, I would not, but still—

48th day, June 27, 1906.

Sovereign Life.
(William H. Gould, Ex'd.)

Q.—If the company retains the money it makes the assurance more valuable? A.—But the company cannot retain the money, the company must deal equitably with its policyholders.

Q.—By reason of public opinion? A.—Public opinion and competition.

Q.—Then the only thing that compels a company to pay out profits is the public opinion that may be created if they fail to do it? A.—Well, of course in that you are excluding all idea of personal conception of what is right. We must not say that the management and directors of companies are—

Q.—I am talking now about what compels them to do it. The only thing that would compel would be public opinion? A.—No, that is not the only thing; there is public opinion, competition and their own ideas of right and wrong.

Q.—Competition would govern to a great extent and what the company thought it was fair to provide. Do you think the Sovereign Life should be permitted to run along for twenty years without setting aside anything for its policyholders? A.—How do you mean?

Q.—Tentatively appropriating it, making a fund, crediting it to their policies, keeping an account of their policies? A.—Oh no, of course you can make up the account at the end of the policy, but that would entail considerable labour on the company.

Q.—Then the proper way to do it would be that? A.—To run along a current account.

Q.—Are you doing that? A.—I have not had time to do it yet, but I have instituted something along that line.

Q.—To what extent have you instituted anything? A.—I have some of the record cards. I may say Mr. Papps quite thoroughly explained the system of individual accounting with each policy and I am quite in concurrence with his ideas.

Q.—You think that would be a good thing? A.—I think that is an excellent thing.

Q.—Have you discussed it with the management of the Sovereign? A.—Yes.

Q.—Has it been decided on? A.—It has not been definitely decided on, but I think Mr. Hoover has concluded to let me have my ideas enforced.

Q.—Mr. Hunter asks me to bring to your attention that the older companies by the Act of 1900 had to strengthen their reserves on old policies within a certain time? A.—Yes.

Q.—This company starting since the Act has had to make no change? A.—No change.

MR. HUNTER: Which will give a better opportunity for profits in the immediate future.

MR. TILLEY: Do you think companies started now have a better chance for profits than the companies that have been started for some time, would you agree with Mr. Hunter in that? A.—It depends on their system of allotting to policyholders, allotting partial profits to old policyholders in force before they started to change their reserve.

Q.—Have you changed the policy forms since you have been in the company? A.—Not materially, no.

Q.—Do you think they are all actuarially correct? A.—The policy forms are legally correct I think.

Q.—Actuarially correct? A.—Well, the form of the policy I don't think the actuary has much to do with.

Q.—The rates and so on? A.—The rates and so on? Oh, yes.

Q.—Supposing an option is given to an insured to withdraw in cash or take paid-up insurance or do something else when a certain time arrives, is it the idea with actuaries that the different options are all to be actuarially the same, of the same value? Giving him a choice which does not cost him anything to exercise? A.—Yes, I would think so, but in doing that you must recognize the fact that possibly the cash surrender value is the basis of the surrender. If you then decide to allow him the privilege of a paid-up policy, that paid-up policy must be calculated according to some single premium. Now actuaries might differ as to the proper single premium to select and in selecting one single premium or another you would arrive at different results for paid-up policies or different results for extended insurance.

Q.—On the basis that the actuary himself adopts the options should all be of the same value? A.—Yes, practically the same.

Q.—Have you examined the Sovereign policies to see whether that is the case? A.—Not intimately, no.

Q.—What would you say about this policy which is called "Whole Life 4

48th day, June 27, 1906.

Sovereign Life.
(William H. Gould, Ex'd.)

per cent. 20 Year Debenture Bond"? What is supposed to be the amount payable at death under this policy? A.—If it is received in one sum at death it will be $1,160.

Q.—As a fact the policy is not payable in that way, is it? A.—No.

Q.—It is payable how, $40 a year for 19 years and then $1,000 in the twentieth year? A.—With interest in advance for 4 per cent. for 20 years and then the thousand.

Q.—So that that should mean that the policyholder or his representatives would be able to get $1,160 in cash as the equivalent of that? A.—Yes.

Q.—In your policy I see that you have a clause: "The assured may at any time direct that the payments due under this bond as a death claim be commuted at a rate not exceeding 4 per cent. interest into a single payment." Computing it at that rate what would it produce? A.—You will notice it says "at a rate not exceeding 4 per cent."

Q.—Supposing 4 per cent. was used? A.—It would be $1,000.

Q.—Is that a proper way to word the clause, that the company shall have a right at the end of the time to compute it at a rate not exceeding 4 per cent. or should that state the rate? A.—If I had been wording it I would have worded it differently and I would have said at 3 per cent.

Q.—Three per cent. is the proper rate, is it not, for this kind of policy? A.—That is the basis upon which that 116 is arrived at.

Q.—That is the basis on which the policy is computed in other respects? A.—Yes.

Q.—Then if this option in this policy was intended to be a pure option and not something that would cost assured money to take, it should also be computed at 3 per cent.? A.—Yes, and I might say that I think there have been only three or four of those policies issued. I cannot tell you the exact number, but I think that everyone of them—there has been only one of our agents who has sold them at all—and there has been typewritten on a clause stating that that commutation will be at 3 per cent. so that those who have assured under that policy have been at no disadvantage.

Q.—That was something, of course, that we would not see in the policy itself, that is a special clause typed in? A.—Typed in, I think, every one of the policies that has gone out.

Q.—Explain to me the features of this policy, "20 Year Guaranteed Compound Interest Gold Bond." A.—The assured pays a premium for 20 years. At the time when each renewal premium becomes due there is available to him 3 per cent. of each previous premium paid which he may receive as a reduction of premium or in cash or he may leave it with the company and the company will accumulate such deposits at a rate of 3½ per cent. and pay it to the assured at any time upon demand. Looked at in virtue of the first explanation, it is a reducing premium policy. That is it reduces it each renewal premium by 3 per cent. of what it was at the commencement.

Q.—Then at the end of the dividend period the company undertakes to issue a paid-up policy for the same amount? A.—For $1,000, yes.

Q.—And then there is an option that they will pay an income of 3 per cent. per annum on that amount? A.—At the end of 20 years the policy provides that he may take the total interest accumulations plus the total surrender value or that he may accept those interest accumulations and continue the policy in force. That is, if he leaves any cash with the company the company will allow him 3 per cent. on such cash left.

Q.—Is not that rather a senseless provision, that the company will allow 3 per cent., that is allow the man the ordinary bank interest that he could get by taking the money and putting it in the bank? A.—It has been done in many cases. It is the company guaranteeing that man 3 per cent. on that deposit, which, I think, is rather an unsafe provision in the policy.

Q.—The tendency of the policies is to run to a lot of these options now? A.—Yes.

Q.—And that option doesn't mean a great deal, does it? A.—If I were issuing a policy now I would want to exclude it from the company's standpoint, because at the end of 20 years, when that policy matures the rate of interest may fall below 3 per cent. and this company is guaranteeing to pay 3 per cent. on a deposit, a rate which it is not sure of realizing.

Q.—You would regard that provision differently from what I would, because you say it would be rather unsafe to make that promise, whereas I thought it was just allowing the

48th day, June 27, 1906.

Sovereign Life.
(William H. Gould, Ex'd.)

man bank interest? A.—It is allowing the man bank interest at the present time and it is guaranteeing to pay it.

Q.—Here is your Profit and Loss Statement. (Exhibit 290.) The loading on your first year's premium was $5,154.75; and your expected death losses were $2,728.22. There were no actual deaths so that the whole of that was a gain? A.—Yes.

Q.—And that left total margins for your first premiums $7,882.97, and your expenses were about four times that, or $28,860.49? A.—Yes, that is four times the margins.

Q.—Then it would take four years for the policies to catch up with their first year's expenses? A.—Well, of course that is on a basis there of assuming the same mortality gains.

Q.—Of course, quite so. That mortality gain was very favorable there, you did not have any deaths at all in the first year? A.—No, but we had some very heavy ones afterwards, and you cannot very well look at that in its individual light, because the company is not large enough to have had an average rate in the initial year.

Q.—Quite so. Your loss in respect then, of first year business would be $20,977.52? A.—Yes, I think our premium income was about $20,000 in the first year.

Q.—Then your loading on renewal premiums was $10,381.36; and your expenses excluding taxes and so on, $25,987.83, so that your expenses of renewal business were 2½ greater than the loading for the renewal business? A.—Yes, I would like to make an explanation there.

Q.—Yes. A.—That in the outstanding and deferred premiums we have written off 40 per cent.

Q.—That is what the Government write off? A.—Yes, well yes, it has been written off which would have served to increase those first year expenses by $1,200 odd and the renewal expenses by $4,000.

Q.—Do you criticize that writing off a certain percentage from premiums? That is something the Government did, I know, but what do you say about it, is the Government correct in doing it or not? A.—We have paid out advances which have been charged up to agents' salaries and agents' commissions, enough to put that on our books I think. I have not followed that out accurately, but I kind of think that that is a little bit of an imposition on the company.

Q.—You think it is a little hard on the company? A.—Yes, it is putting expenses up higher than it will cost to get the business.

Q.—What you say in your memo. is that the full reserve having been put up on the premises that the whole premium should be allowed? A.—The whole net premium any way.

Q.—Do you say that the whole net premium amounts to more than what the Government gives you credit for there? They have taken off 45 and 20? A.—On the first year business, yes.

Q.—And on the second and other years? A.—On the second year I would not say so, no.

Q.—So that that would be about right for loadings. You see there is a third year there too? A.—Yes, I know, but the third year would come right in with the renewal.

Q.—Is it not fair to say 40 for first and 10 for renewals? A.—I would rather have said 25 for first and 10 for renewals.

Q.—That is the rule the Government adopts anyway, that they take off from renewal premiums and from first year premiums not yet collected, 40 per cent. and 10 per cent? A.—Yes, that is the rule they applied to us.

Q.—Then your net expected death losses in 1905 were $8,956.54, and your actual death losses were $13,375. Now, I understand that in the company's experience you had exceptional death losses? A.—Yes, I would say so.

Q.—Because instead of having a gain on mortality, as companies usually have, you have a loss on mortality? A.—Yes.

Q.—Your actual death loss should be about 60 per cent. of the expected, comparing it with ordinary companies after they have got well established? A.—Yes, it should be. I may state in connection with this that since the inception of the company there have been $20,000 death claims, and I think we can only put down 2 of them to what you might call legitimate cases of disease. We had a man who suicided, took illuminating gas; another fellow had a boil cut out of his neck and he died; another man was accidently shot; another man poisoned himself and a man died of disease which should have been foreseen I think in the application, but

48th day, June 27, 1906.

Sovereign Life.
(William H. Gould, Ex'd.)

was not. There have been several causes which have forced that up.

Q.—In 1905? A.—Yes.

Q.—That is to some extent your company's misfortune in the year 1905? A.—Yes.

Q.—It serves to bring your profits for the year lower than — A.—Lower than they should have been.

Q.—Than they should have been taking the ordinary run of things? A.—Yes.

Q.—You received from dividends and rents $13,977.03. Less required to make good the reserve $3,477.68. Showing a profit in that item of $10,499.35. Then you have increases in market values a profit of $4,977.09. Reserves released by surrender and lapsed $6,061. I see that there are no surrender values allowed. I suppose that that is because the company has not been in existence long enough? A.—No.

Q.—The surrender values will commence next year? A.—Yes, with this report.

Q.—Taking this report as it stands, your profits were $21,537.44, and your losses $41,002.45, showing the net losses for the year $19,465.01, which is partly accounted for as you say, by the exceptional death losses in that year. What would have been an average death loss for that year? A.—I would have said about $7,000.

Q.—And that would be about $6,000 less than what the death loss really was? A.—Yes.

Q.—Is there anything else you would like to say about that? A.—Yes, in this connection I would like to say that that $19,000 you show there net loss was foreseen by the directors in the organization of the company in having this premium paid in upon the capital stock. That was collected to organize the company and provide for organization expenses and also to provide for the necessary impairment which would come, so as to have the company come through its organization period with its capital stock practically unimpaired.

(Profit and Loss Statement now filed as Exhibit 290).

Q.—That is the usual result with a young company? A.—Yes.

Q.—And you were seeking to keep a fund there so that the capital would not be impaired? I believe that on the basis of the Government change in your Report, taking the 40 per cent. off outstanding first year premiums and 10 off the outstanding renewals that it made the impairment of capital at the end of 1905 how much? A.—$2,700.

Q.—That being somewhat different from your figures which did not take off that 40 and 10 per cent. which you have mentioned? A.—Yes.

Q.—Now I notice that in the last annual President's address, Mr. Hoover, in moving the adoption of the report, said, amongst other things, "the mortality experience of the company during the year"—that is the year 1905—"is something higher than the previous year but is within the amount provided in our calculations for that purpose." Is that right? A.—No.

Q.—Then it should not be there? A.—It would be better not there.

Q.—Then I have gone over your income over expenditure, constituting different years and I find that your total income since the company was organized is $503,138.33, and expenditure $173,085.74, so that your excess of income over expenditure constituting your net ledger assets, $330,052.59. This does not show your liabilities. It is just receipts and disbursements? A.—Yes.

Q.—This statement shows the total amount received for calls on capital $225,595.68, and the premiums on the capital stock were $87,313.44. I notice that in 1905 you paid out on a policy $875 more than the amount of the policy? A.—That is two stock policies, that increasing insurance policy. That was carried in our books at the original face, and the one was $5,000 with two premiums paid on it, which made an increase of $500 and another of $2,500 with three premiums paid.

Q.—That explains it. I did not know how that was. I notice that in speaking of the estimates the literature issued by the company contains this statement: "The illustrations of cash profits and equivalent value in paid up assurance and annuities given in this book are based upon actual settlements of similar policies maturing in other companies and will probably be realized." Is that speaking of the estimates you prepared? A.—Yes, I think that wording was in the original estimate and I know in getting it up I compared with a number of the actual results of the New York companies, the Equitable and New York Life as they published them.

Q.—And that is the way you com-

48th day, June 27, 1906.

Sovereign Life.
(Thomas Allen, Ex'd.)

puted them? A.—Yes, practically that way.

Q.—They were made up by comparison? A.—To a great extent by comparison. Some calculations were made. Could I make a statement regarding that mortality and Mr. Hoover's report? They were taking the expected mortality on an Hm. basis. I think you will find that our mortality was about equivalent to or slightly within the Hm. I don't want to say that authoritatively, but my recollection is that it is.

Q.—Here is the simple statement: "The mortality experience of the company during the year is somewhat higher than the previous year, but is within the amount provided in our calculations for the purpose." A.—Well, I guess my previous statement then must stand.

Q.—Mr. Hunter says he thinks you were the authority for that statement.

MR. HUNTER: Yes, that the amount of the expected mortality was about $14,000? A.—That was using an Hm. for calculating it.

MR. HUNTER: So that Mr. Hoover had warrant for stating that? A.—Yes, I know Mr. Hoover was not making a statement to deceive or anything like that.

MR. TILLEY: No. Then we will put in the claim papers as Exhibit 291.

MR. GEARY: Have you got a statement, Mr. Gould, of the cost of the first year business of the company? A.—Yes.

MR. TILLEY: You were going to look up and ascertain what non-participating policies were issued? A.—Before that printed pamphlet went in force I think there were two.

Q.—Whose were they? A.—One was Mr. Burns.

Q.—Was one Mr. Hoover's? A.—No.

Q.—You are not referring to stock policies? A.—No.

Q.—Outside of that there were two policies issued in the ordinary course of business? A.—In the ordinary course of business, on another company's rates.

Q.—So that was the extent of the insurance written by using other people's rates? A.—Yes.

MR. T. ALLEN recalled.

MR. TILLEY: Now, Mr. Allen, did you find those notes? A.—George H. White, Sussex, a note dated February 10th, 1903. That is the original note.

Q.—Then on January 23rd you had no note of his? A.—Yes, we had. I think there was another note of his which came due afterwards. There were two notes. I thought that was what you asked for to that date.

Q.—I am asking for the notes that represented some of these payments stated in the return made to the Government and supposed to be cash, which you now say may have been partly notes. I want to know whether there was any note from White; a note given in February will not answer for the statement given on the 23rd January? A.—Yes, I have the same man, George H. White, November 24th, a note for $521, paid.

Q.—Then see if there is any note from John H. Connor. Even in the case of White, you would not have the amount of cash credited including the note? A.—Yes.

Q.—A note given in February cannot be taken into account? A.—Yes, we took both notes into account.

Q.—Did you make up this statement, is this in your own handwriting? A.—I think it is.

Q.—Isn't it the fact that you computed in that outside column just what should be paid and not what the books show at that time was paid? A.—It was understood when I made up that, I understood that it was covered by the cash that was paid and also the notes that were coming due.

Q.—Didn't you just put in the outside column the amount of the call and what the man owed on the stock.

MR. HUNTER: The fact was the amount paid, plus $29,000.

MR. TILLEY: Mr. Hunter says that it was the amount paid by the shareholders plus the $29,000 raised on the note. Were you professing to put here an exact record of the shareholders' shares in your company or not? A.—I was, yes.

Q.—Then where did you get this information from, this outside column? A.—From our books.

Q.—And how did you get these amounts? In every case it is either just the amount that the man had paid or was compelled to pay? A.—Yes.

Q.—Throughout the list, including Mr. Hoover's and Mr. Hoover had not paid and he had not given any note? A.—He had given a note, but

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

it was not entered in this book, it was considered as cash.

Q.—Taking this all the way through, every item in this outside column is just 25 per cent. of the amount in the inside column? A.—It shows the exact amount of the first call.

Q.—And in order to show that that money was in the company's hands you had put out a note in the Imperial Bank and got that amount of cash represented in the funds of the company? A.—Yes.

Q.—And you say that if you had understood that you would not have made this declaration? A.—I would have qualified it.

Q.—You would not have chosen to say that the sections of the Act had been fully complied with? A.—No.

Q.—Did you get me the proxies for the policyholders?

MR. HUNTER: I have them.

MR. TILLEY: Are these the proxies? A.—I don't know, I didn't have charge of them.

MR. HUNTER: All but the 1906 crop. We could not get into the deposit vault this morning.

MR. TILLEY: Were these in your custody? A.—No.

Q.—Where are they kept? A.—In the office in the vault.

Q.—Under whose charge, Mr. Hoover's, or just in the general way that all papers are kept? A.—In the general way that matters of that kind are kept. Locked up in the company's box.

Q.—You could get them, could you, at any time? A.—Yes, those I could get at any time, but the others I could not, because they are downstairs put away.

Q.—Do you know how many there are downstairs? A.—I do not.

Q.—Do the agents get these proxies when the policyholder takes out insurance? A.—No, they do not.

Q.—Do they ever try to get them then? A.—I don't think so.

Q.—They are dated at all seasons of the year. It has some appearance of the agent getting these proxies filled out when he takes the application. Here is one dated the 10th July. There was no annual meeting on then? A.—No.

Q.—The annual meting was held early in the year. Here is the circular. (Read and filed as Exhibit No. 292.) The form of proxy is attached and has a clause at the end that it shall not be used or voted at any meeting of the company at which the policyholder is present in person. You cannot say how these come to be signed? A.—They are sent out to the policyholders and they sign and return them at their leisure and that makes the difference in their dates.

MR. HOOVER, recalled:

MR. TILLEY: Mr. Hunter wants me to bring out the fact that you have no unauthorized investments? A.—None. Our investments are all in municipal bonds.

Q.—And you have not had any investments that you have had to take out on the 31st December and put in again on the 2nd January? A.—No sir, our skirts are clear of that charge.

Q.—And you have no subsidiary securities company? A.—No.

Q.—And then he asks me to ask if the company has any entangling alliances. I do not think I should ask that. I do not think you had better press that question.

By MR. GEARY: Before undertaking the work of this company you were in the field actively as an agent, were you not? A.—Yes, my experience was for 26 years.

Q.—How long since you gave up active work in the field? A.—When I undertook the organization of this company.

Q.—Some 4 years ago? A.—No, I had acted as Liquidator of the Covenant Mutual and had wound up that company under the direction of the Court. Then I determined to establish a company myself.

Q.—You have not been so long out of the field as to be unable to represent to some extent the views of the insurance agents? And the answer they may make in regard to this rebating charge placed against them? A.—I understand the field part of it thoroughly.

Q.—What is the agents position in regard to rebating? A.—I think the agents position is a very hard one at the present time.

Q.—Why has he to give these rebates? A.—The fault lies largely with the companies themselves.

Q.—In what way? A.—In encouraging it, winking at it, suggesting it.

Q.—The agent doesn't want to do it? A.—The agent doesn't want to give away his money any worse than you and I do.

Q.—The agent could make as good a living with a less commission if he were not encouraged or practically

told to rebate? A.—The difficulty has grown out of the American companies giving bonuses.

Q.—It has been followed too, I understand, in this company, the giving of bonuses and prizes. Do you do that at all? A.—No sir, we have tried to stop it.

Q.—What action would you suggest that would assist in stopping rebating? A.—You can stop it in twenty-four hours.

JUDGE MACTAVISH: Would it be absolute prohibition, in twenty-four hours? A.—Yes sir, I think you could stop it in twenty-four hours and I will give you the formula. I would fine the company $1,000 for the first offence, cancel the license for the second, imprison the agent and void the policy. I think if you place that Act on the books there won't be any more rebating.

MR. GEARY: It comes to this, that you, in common with some of the newer companies, agree that it is the pressing for business on the part of the companies that produces the rebating evil? A.—Yes, it is the high pressure business and the agent is forced into it.

Q.—Practically told by his company to do it? A.—No doubt of it. The company is to blame. The agent practices it because he has to.

MR. KENT: Then when the company throws the entire blame on the agent— A.—They do wrong.

Q.—They are simply making him a scapegoat for their own iniquity? A.—Yes.

MR. GEARY: That is practically what was done in the earlier stages of the Commission. We were led to believe it was all the agents fault. In your experience you got pretty well on to the ways of agents as they worked? You never misrepresented a policy to an applicant in any way? A.—If I did it was in my earlier experience when perhaps I did not understand the contract.

Q.—Do you think there is any misrepresentation? A.—Yes, on the part of new beginners perhaps. I don't think a practical life insurance man requires to do that; on the contrary I think he injures himself if he undertakes it.

Q.—In what direction would it be made? A.—Sometimes it is done by selling a limited payment life policy for an endowment. That has been practised.

Q.—Do you suppose that misrepresentation could be broadly remedied by forcing the agent to leave with the applicants their representations in writing? A.—I don't think that would help matters at all.

Q.—You don't think an estimate if made should be left with the applicant? A.—I think the estimate should be forbidden.

Q.—Assuming that they are given, should they be made use of verbally? Or should not the company be held liable to the extent of a written statement of assets left with the applicant? A.—No, because the agent might give out a statement which might bind the company.

Q.—No, they would be bound only by the written estimate left in the hands of the applicant? A.—But in the written estimate the figures might be wrong. Suppose when he gets the policy it turns out different. He doesn't compare it, puts it away in his desk and it comes up in after years.

Q.—I mean to say, the company might issue a printed estimate? A.—No, the company don't issue the estimates, the agent does.

Q.—Should not the company's estimates be furnished to the agents in writing if they are to be used at all? A.—I think so.

Q.—And possibly it might go further and give other particulars that are essential to the understanding of the policy? A.—I think the estimates ought to be wiped out entirely. The contract itself is good enough, and if properly represented the business can be secured.

Q.—You would agree then that any strengthening, as it were, of the applicant's position by the forcing of the agent or company to leave their representations in writing would be a fair thing to the company and a good thing for the business? A.—I think that would be an injustice to the company; it would place it in a rather perilous position.

Q.—There is a field for misrepresentation, though, and if you will pardon me it would strengthen the company as to what he would secure, a by what they had issued in printed form and not by what was misrepresented by the agent? A.—If the agent delivered to the applicant in advance a statement under seal of the company as to what he would secure a written statement, then that would be

48th day, June 27, 1906.

Sovereign Life.
(A. H. Hoover, Ex'd.)

correct; but that must come from the company.

Q.—You would favour such a course? A.—I would have no objection to it.

Q.—Doing away with verbal misrepresentation where it exists? A.—We do it now if it is required.

MR. KENT: In reply to a remark of Mr. Tilley that your contract was an everlasting one, you said: "I will say this, if there is any considerable number of shareholders or policyholders of this company want this contract terminated I will terminate it in twenty-four hours." A.—Yes, sir.

Q.—Will you state just what amount of insurance you had in mind that would furnish the requisite demand to terminate that contract? A.—Well, at the rate we are going, to be safe we will probably at the expiration of six years have about four millions of business on the books. That would be $4,000 at $1 per $1,000. That added to my salary of $2,500 would be about $6,500.

Q.—Does that mean that if four millions of insurance asked to have your contract terminated, that you would terminate it? A.—What do you mean?

Q.—Supposing that some time in the distant future, the policyholders of the company say, they do not want Mr. Hoover, what amount would be required to give you the necessary notice under this offer that you made yesterday? A.—The amount could be computed by the actuary and whatever that was would be quite satisfactory.

MR. HUNTER: You do not understand the Commissioner's question. May I interrogate him?

MR. KENT: Certainly.

MR. HUNTER: The Commissioner is drawing your attention to the fact that yesterday you volunteered that if any considerable number of shareholders or policyholders were dissatisfied with the arrangement between you and the company that you would terminate it. The Commissioner is asking you to define what you would define to be a considerable number. A. Oh, I see. Well, it would not require a very large amount of discontent at the next annual meeting. I think I shall voluntarily do it.

MR. KENT: Then you have not stated what is the considerable number? A.—I don't desire to do that at the present time.

Q.—Would it not have been better not to have made that reply to the question? The considerable number may be just what you choose. Your evidence has been very straightforward right through and it is for that reason I give you the chance to amplify. A.—Well, my idea is to let that contract run until the expiration of six years and then terminate it voluntarily. The business on the books of the company at that time will not exceed, so far as I can foresee, about four millions of insurance.

Q.—Then it means really nothing? A.—It means this, that should I die before the expiration of the next three years, the money that I am receiving would not be any allowance for the advances that I have made to the company, the money that I have given to them voluntarily. There would be no repayment for what I have done.

MR. KENT: As an individual member of the Commission I may possibly be disposed to agree with you. I am speaking now though as a sort of self-constituted representative of the policyholders in this particular matter and it is as representing them that I give you the opportunity of saying just what amount of insurance in force at any particular time, you would require to accept a notice to terminate your contract. Of course there is nothing that binds you to give any amount? A.—Well, I am not in a position to make a statement at this time. You must recollect that I have performed the duties of President and Managing Director; not only that but I have been Superintendent of Agencies for this company; made all its contracts; travelled from the Atlantic to the Pacific. I have received $2,500 a year and I have saved that amount that would have been paid to a Superintendent and I have saved the President's salary.

Q.—I put the question because you yourself volunteered the statement? A.—I may say that under my present contract I would be willing to accept a salary of $7,500.

Q.—Can we put that down that you would be at any time ready to commute all the advantages by an annual payment of $7,500? A.—Well you suggest it as an equitable settlement.

Q.—I certainly would. A.—Then I will accept it.

MR. TILLEY: For how long is this contract? A.—Until the next annual meeting.

48th day, June 27, 1906.

MR. TILLEY: Then, your Honours, I propose not to take any more evidence to-day, but to ask for an adjournment to London to-morrow.

JUDGE MacTAVISH: We will meet then in London to-mororw morning at 10 o'clock and we will be here again on the 9th day of July at half past ten in the morning.

(At 1.30 Wednesday, 27th June, adjourned to 10 a.m. on Thursday, 28th June, at London.)

FORTY-NINTH DAY.

MORNING SESSION.

Resumed at the Court House, London, June 28th, 1906, at 10 A.M.

Mr. Tilley puts in account of payments for Mr. Hoover's capital stock in the Sovereign Life Assurance Company, which was marked as exhibit 293.

LONDON LIFE INSURANCE COMPANY.

Edgar Jeffery appeared for the Company.

JOHN G. RICHTER, sworn, examined by

MR. TILLEY: Q.—What position do you hold in the London Life Insurance Company? A.—General Manager and Secretary of the Company, and advising actuary.

Q.—How long have you been manager? A.—Since 1883.

Q.—For a time did you do all the actuarial work for the company as well, or had you any other actuary assisting you? A.—Up to I think 1901 if I remember rightly I was the actuary, but during part of that time the present actuary was my assistant, I cannot recall now from memory the date when he became actuary.

Q.—At the date you mentioned, or about that date a change was made, and you ceased to be looked upon as the working actuary? A.—Yes.

Q.—Up to about what year? A.—1901 I think was the date. Mr. Reid, the actuary, can correct me.

MR. REID: That is correct.

MR. TILLEY: Q.—You have not been associated with the company since its original incorporation? A.

—No, it was about nine years old when I became connected with it.

Q.—It is not a company that can be regarded as one of the younger companies? A.—Not exacty.

Q.—The company was incorporated by the Ontario Legislature? A.—Yes.

Q.—By an Act of Parliament? A.—Yes.

Q.—And subsequently obtained an Act from the Dominion Legislature which had to be amended a year after it was granted? A.—That is right.

Q.—The original Act was in 37 Victoria 1874, chapter 85, the persons incorporated were Edward Harris, William Woodruff, John Walker, Joseph Jeffery, and James Magee, of the City of London, Esquires. The company was incorporated, the capital stock being $100,000, divided into 1,000 shares of $100 each; has the capital been increased by the subsequent Acts? A.—Yes sir.

Q.—What is the authorized capital now? A.—The authorized capital is a million.

Q.—How much of that has been subscribed? A.—$250,000.

Q.—25 per cent. of it? A.—Yes.

Q.—Just to complete that part of it here, the paid-up capital I think is $50,000 at the present time? A.—At the present time.

Q.—So that there is 20 per cent. paid? A.—Yes.

Q.—And 25 per cent. subscribed? A.—Yes.

Q.—This Act gave authority to increase the capital stock at any time to an amount not exceeding $500,000, but no subscriptions were to be valid unles ten per cent. shall have been actually bona fide paid thereon within five days after subscription into one or more of the chartered banks of this province; was advantage taken of that section? A.—There was some increased capital, you have the dates there; I cannot state from memory because I was not with the company then.

Q.—1874, that would be under this Act; it says the original subscribed capital was $112,500; the authorized capital here is $100,000, so that that indicates there must have been some increase under the old Ontario Act? A.—Yes.

Q.—Then it refers to the liability of stockholders to the amount of their unpaid stock; it provides for direc-

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

tors, and by section 9 the Act gave the company power to establish mutual benefit societies, or it might form distinct classes of life insurance policyholders on the mutual principle solely; was advantage taken of that section, Mr. Richter, do you know? A.—It was in 1883.

Q.—Would that be under that Act? A.—It was under that Act then in contemplation of taking out a Dominion Charter or Act of Incorporation.

Q.—What was done in 1883 in that regard? A.—Have you reference to taking out of the Dominion charter or Act of Incorporation?

Q.—No, to establish this mutual benefit class of insurance? A.—Up to about the middle of 1883 the business of the company had been conducted entirely on the non-participating plans, that is the company was a non-participating life and accident insurance company.

Q.—They had both powers combined under this Act? A.—Yes, under the Ontario Act. The business of the company, its plans were changed then to the with-profit plans, that is with-profit policies were issued mainly after about the middle of 1883, so that prior to that the company had been treated entirely as a stock company? A.—Yes.

Q.—The profits going entirely to the shareholders? A.—Yes.

Q.—Subsequent to that date this profit sharing plan with policyholders was established? A.—Yes.

Q.—With-profit sharing plan as continued down to the present time? A.—Yes.

Q.—What is your view, and I ask you that, just your own view personally, and not asking you to state it for the company, as to the advisability of mixing up the two classes of insurance, the participaing and the non-participating business in one company, or have you any view on that subject you care to express? A.—That would depend very largely upon the manner in which it was mixed up.

Q.—What do you mean by that? A.—I think if each class of policies, that is if any profit or loss resulted from each class of policies should go in a certain direction to be dealt with in a definite way, I do not think they should be mixed up at all.

Q.—That is what we want to bring your attention to, to put it mildly we find that in some companies there is no exact division between the two classes of insurance kept, death losses are not charged in the non-participating to this class and the death losses of the participating are not charged to the funds of that class, and so on; conducted in that way what do you say as to the propriety of having the two classes of business? A.—I should think it would be very difficult to apportion the profits in an equitable manner; they might arrive at it fairly closely but I do not think it would be accurate at any rate.

Q.—If there was a chance of erring would you anticipate that the participating policyholders would suffer or the non-participating policyholders suffer in the way the business has been carried on in Canada? A.—I do not see how the non-participating policyholders could suffer, because the contract with them is a definite one, no matter what the company made the premium is the same.

Q.—They pay a definite premium and they get a definite result, and it cannot be lessened and it cannot be increased? A.—Yes.

Q.—Might there be a loss in respect to that particular class of the business? A.—There might.

Q.—You are speaking now about insurance as you know it to be carried on in Canada? A.—Yes.

Q.—You say you believe in years past that some companies may have been sustaining a real loss on their non-participating business? A.—I would say that would be possible, I have no knowledge of course of that.

Q.—I am asking you as an insurance man from the rates used and all the other circumstances you know about—I am told the non-participating death rate is higher than the participating? A.—I think that has been the experience of most companies.

Q.—What is the reason for that? A.—The only reason that I have been able to satisfy myself on with regard to that is that in the general way the lower the premium in respect of any particular kind of insurance the greater the risk, in a general way; for instance term insurance, an applicant who feels he is not quite as good a risk as he might be, or ought to be will give himself the benefit of the doubt and he will select the plan which will cost him the least as a rule if left to his own volition.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—I suppose it is perfectly obvious that the lower the rate the nearer you are getting to where you would lose money? A.—I think that is obvious.

Q.—And with the participating rate you have a higher premium? A.—Yes.

Q.—So that there is that element of safety that does not exist in a non-participating risk? A.—Just so.

Q.—Do you express it as your view that companies should be required to discriminate all along the line as between their non-participating and their participating business in keeping their accounts? A.—No, I would not like to say that was absolutely necessary; so much would depend upon circumstances. If for example the profits of the non-participating business went to the credit of the participating business, and there were any profits in that particular class the only question that would have to be considered would be whether the rates of the non-participating business were sufficiently high to admit of the company carrying on the business without loss.

Q.—How can you know that unless you carry the whole thing separate in the books? A.—That can be ascertained periodically with probable accuracy, in fact it can be ascertained periodically I think with greater accuracy than would possibly be the case as you go along, because the fluctuations are so great from year to year that those fluctations would be eliminated in a large part.

Q.—What would you say to the proposition that mutual companies should do participating business, and companies with capital stock should do non-participating business only? A.—I do not catch your question.

Q.—That a company that is a mutual company should carry on participating business entirely, and the company that is a stock company carry on a non-participating business? A.—I think a company that is a purely mutual company ought not to do any other kind of business.

Q.—But what would you say to that, that a company to carry on participating business must do away with the capital stock and become a mutual company? A.—I do not think that would follow.

Q.—At any rate should there not be absolute representation of the policyholders on the Board and in the Directorate? A.—In a mixed company?

Q.—Yes? A.—I certainly think so.

Q.—If a company is to do a participating business then the persons for whom the directors are trustees should be willing that some of those policyholders should be on the Board? A.—I think they should have an opportunity of knowing what is being done with their money.

Q.—Your company now has a provision for policyholders being on the Board? A.—We have had since 1883.

Q.—From memory I think that certain directors are policyholders representatives entirely in your company? A.—Yes.

Q.—The policyholders have a distinct vote for their own men? A.—Yes sir.

Q.—Not more than half of the Board, is that the provision? A.—One-half the number of the stockholders' directors are enititled to be policyholders' directors; that would be one-third of the Board, that is the whole Board.

Q.—Is a shareholder eligible to be appointed a policyholders' director? A.—He would be, there is no discrimination there; he must be a policyholder.

Q.—Have you any directors who are policyholders and not shareholders? A.—Yes sir.

Q.—How many? A.—Two at present out of three.

Q.—Two out of your three policyholders' directors are policyholders merely and not shareholders? A.—Yes.

Q.—The other third man is a shareholder and policyholder both? A.—Is a shareholder to a small extent only.

Q.—If you are going to carry the argument out properly should not these men be policyholders only? A.—It might be preferable in some respects, though I do not think that absolutely follows.

Q.—Tell me whether in your actual experience in the working of the company you have found any benefit to result from that division of your Board? A.—It is pretty difficult to say what benefit has resulted from it. It is difficult to say what might have been the result if it had been otherwise.

Q.—You cannot tell what you have prevented? A.—No.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—There is an element of safety there you think? A.—I think so.

Q.—What special duty would the policyholders' director have to see that the profits are properly divided? A.—There is no doubt that being elected to represent the policyholders it would be his duty to look afer the interests of the policyholders.

Q.—That would be his chief duty? A.—Yes.

Q.—Watching division of profits? A.—Yes, and generally seeing the affairs of the company would be conducted upon lines that would not be inimical to the policyholders' interests.

Q.—Probably as y
est benefit would be just being there to see that certain things do not arise that might arise? A.—On the principle that prevention is better than cure.

Q.—The company are given power to borrow money on the security of its debentures to an amount not exceeding one-half the paid-up amount of its capital stock, and ten per cent. on the amount of the company's assets requisite for the re-insurance of the company's out-standing risks; is that clause of any use? A.—It never was availed of at any rate.

Q.—Do you regard it as a clause that is any use in charters of insurance companies? A.—I would not think so; I do not know of any use in a life insurance company, because the life insurance companies do not issue debentures.

MR. LANGMUIR: Should they be prohibited from issuing debentures? A.—I do not think it is the business of life insurance companies to issue debentures, I would not think. I ought to perhaps say by the term debenture I mean debenture in the ordinary acceptation; there are policies called debentures. I do not mean that.

MR. TILLEY: You do not mean the debenture policy? A.—No.

MR. KENT: I suppose what is called a debenture policy you do not look upon it as anything else but a misnomer, it is not a debenture? A.—It is merely a name, and is not applicable.

Q.—In your opinion do you think it is a proper name to give to a policy? A.—I do not think so.

MR. TILLEY: I suppose you agree with some others that the insured does not always read his policy, put it mildly, and is taken with the name? A.—I think there is a good deal can be said in favor of that contention.

Q.—You took an entirely new Act from the Dominon? A.—Yes.

Q.—In 1884, 47 Victoria, chapter 89, and 48 and 49 Victoria chapter 94; and 54 and 55 Victoria chapter 117, the last Act being in the year 1891; these three are the Dominion Acts? A.—Yes.

V.—Had you prior to this Dominion Act carried on business in any other Province than in Ontario? A.—No sir.

Q.—Had you decided to change in that regard? A.—Yes, at that time.

Q.—What other districts did you intend to cover? A.—We had in mind we might probably want to extend over the entire Dominion in time.

Q.—You started then to apply for a Dominion charter? A.—I might say in that connection there were also other reasons, there was some doubt expressed by Christopher Robinson, I think it was, to whom the matter was referred whether the company had as wide powers under their Ontario Act as they ought to have to properly carry on the business of life insurance on the with-profit plans. He advised that as it was so easy to get a Dominion Charter that that was probably the better way out of it.

Q.—Section one provides that the London Life Insurance Company incorporated under the Provincial Act should be continued with all the powers, privileges and rights hereinafter mentioned. The capital to be one million dollars, to be divided into ten thousand shares of $100 each, of which 2,230 shares shall be those already issued as hereinbefore mentioned. Section three provides that the members of the company shall be all the shareholders of the company at the time the Act takes effect, and all who in future shall become shareholders. Section four provides: (Reads the whole of section four). Has that clause ever been taken advantage of? A.—Not under that Act. I may say that Act was never taken advantage of at all because of a clause incorporated later on which made the Act inoperative.

Q.—That is section 24, is it not? A.—It is the section that incorporated sections of the Joint Stock Companies' Act.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—Your subsequent Act merely repealed section 24 and substituted a new section, did it not, and section 25? A.—Yes, there were some slight changes in the meantime.

Q.—This section as to preferred shares I do not think was changed, was it? A.—Unless it was specifically repealed it would not be changed.

Q.—Had you ever acted under that section? A.—No.

Q.—Never issued any preferred stock? A.—No.

Q.—Is there any use of such a provision as that for an insurance company? A.—At that time there seemed to be——

Q.—What was the object of it? A.—At that time the company's capital was impaired very considerably, and the object we had in view at that time was to issue preferred shares at such a premium as would make good that impairment of capital.

Q.—You were going to charge something extra for the preferred shares; you did not carry it through that way? A.—No, the amendment gave us other powers.

Q.—Section 5, section 6 and 7 provide for the ranking of such preferred dividend shares, and also as to a premium thereon, and disposal of the premiums received. Section 7 says, "Any premiums to be received upon any shares shall not be deemed profits of the company out of which dividends shall be payable unless and only to the extent to which the same shall so be declared by a by-law or by-laws of the company passed before issue of such shares." The idea was to get a premium as other companies are commonly getting it now in order to make up impairment of capital? A.—That was the object.

Q.—Not to have a dividend-bearing stock? A.—No.

Q.—Section 10 provides for the transfer or transmission of shares. There has not been any considerable movement in the shares of your company? A.—Not of recent years.

Q.—Is there any control of the share capital in any person or any body of persons? A.—Yes, I think there is.

Q.—In whom is the control? A.—In the Messrs. Jeffery. Mrs. Jeffery, the widow of the late Mr. Jeffery, who was the President of the company at that time has a considerable interest, and the present Vice-President, Dr. Jeffery has also a considerable holding; the solicitor has a certain number of shares; these several parties of that family have more than one-half the shares.

Q.—That is to say Mrs. Jeffery, the widow of the late President, and members of the late President's family, is that a fair way to put it? A.—Yes.

Q.—That they hold what percentage of the stock? A.—A little more than one-half.

Q.—I suppose you would say notwithstanding the provisions for policyholders voting and so on that that represents control, does it not? A.—It does under existing conditions.

Q.—Has any one of these persons had any private dealings with the London Life Insurance Company of a financial nature? A.—Would you mind explaining what you mean by private dealings?

Q.—Have they had any financial dealings with the company of any kind? A.—I think the present Vice-President has had in years gone by.

Q.—Will you name him by his initials so that we will know? A.—Dr. A. O. Jeffery.

DR. JEFFERY: I do not think so. A.—I may not understand the import of your meaning.

MR. TILLEY: Let us have the import of your answer? A.—What I mean by saying they have had financial transactions with the company is that on one or two occasions I think we made the loan to Mr. Jeffery on certain securities. Was that what you meant?

MR. TILLEY: Yes, that is what I meant, but if there is anything else I should have meant too I will be glad to have that? A.—I do not know of anything else. May I ask the Vice-President now if he dissents?

DR. JEFFERY: I do not remember any; I think any loans ever I had was with the Ontario Loan & Debenture Company on my own stock, I do not pretend to remember where the loans were.

MR. TILLEY: I think the transaction was perfectly clear, that it was a loan, as the Vice-President says, on some Loan Company stock? A.—Yes, but I think the loan was made by the London Life.

DR. JEFFERY: You can look it up easy enough? A.—I will look it up.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

MR. TILLEY: Have you the stock book here?

MR. REID: No, we can get it though.

MR. TILLEY: Other than that has there been any loaning to directors or to persons in control of the stock? A.—I do not remember of any loan to persons in control of the stock. There were other loans to directors.

Q.—To what extent were there other loans to directors? A.—Speaking from memory I should say we had a loan to one of the directors of a similar character, it was on Ontario Loan & Debenture Company's stock. I am unable to recall the amount.

Q.—What director was it? A.—William Bowman.

Q.—And you will be able to give us the particulars of that with the books? A.—Yes.

DR. JEFFERY: Are not you mistaken there?

MR. TILLEY: We will go on with that when we get the books.

MR. TILLEY: Are there any loans in existence now to directors or shareholders? A.—None. There has not been anything of the kind for some years past, quite a few years past.

Q.—Has there been any loss with respect to them? A.—Never.

Q.—Do you think it is proper—I am not saying there was anything improper in any transaction the company had—do you thnk it proper that a life insurance company should lend to its directors? A.—It may be open to abuse.

Q.—If it may be open to abuse it should be prevented, should it not, because if the loan is a proper one it could be got elsewhere? A.—So much depends upon the parties concerned.

Q.—But life insurance companies should not make a loan that another company would not make to the same director? A.—Certainly not.

Q.—If that is the case there is not much hardship in saying that particular company shall be excluded from loaning to its directors? A.—I do not think there would be any hardship in it.

Q.—In your Act you had some provision as to the investment of funds, but I think section 50 of the Insurance Act is broader than any provisions you have in your private Act? A.—I do not think so.

Q.—You do not rely on anything in your private Act now since the Insurance Act has been amended do you? A.—That question of course has not arisen.

Q.—I mean to say in your carrying on your ordinary business you regard section 50 rather the section in your own Act? A.—With this exception there may be a question as to our right to go beyond our own Act even if the Insurance Act gives us wider powers.

Q.—Have you considered that question? A.—It has not arisen.

Q. That is to say you suggest that where your own Act contains express provision that that limits that particular company? A.—I would not like to express the opinion that it does, but I say it might be open to some doubt as to whether it would not.

Q.—At any rate your section is not broader than section 50? A.—I think not.

Q.—Section 17 provides for policyholders' directors; has that ever been amended? A.—I do not thnk so.

Q.—It reads in this way (reads). You have had by-laws passed that set out with considerable detail the voting by policyholders, have you not, as to voting by proxy? A.—They make provision for that.

Q.—The by-laws are rather lengthy, because they deal with a great many matters about policies, participating policies? A.—Yes.

Q.—I will put in the document just as it is handed in, because it is very instructive as to the history of their participating policies, and how they have changed from time to time? A.—Yes.

By-laws filed as exhibit 294.

Q.—I will read section 18 also as to the dividends (reads). Has that section been amended? A.—Not that I am aware of.

Q.—Do you think that is a precise enough section as declaring policyholders' rights in the profits of the company? A.—Of course that is a matter regarding which there may be differences of opinion, I think it is a fair clause looking at the shareholders' standpoint? A.—I think it covers the policyholders' standpoint? I think it covers the policyholders' interests, in that shareholders shall not make by-laws that will be detrimental to their interests so far as existing policyholders are concerned.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—But then it says they may make by-laws as they deem proper for granting or apportioning among the policyholders of the company profits after payment to the shareholder of such portion of the profits or such interest upon the paid-up capital or such percentage or commission upon the amount of insurance effected as shall be thought proper—that is rather broad, it does not make any division of profits as between policyholders and shareholders, the by-law governs? A.—The by-law governs, but that does not say how it is to be done. That gives the right.

Q.—Has there been any by-law passed as to a commission or percentage on business written going to shareholders? A.—Yes, sir.

Q.—That is the effect of it? A.—Pardon me, perhaps that is not exactly according to the facts; it is not a percentage on the business written, a percentage on the profits of the business.

Q.—This is the section that you thought should be struck out, section 24 (reads) what was the objection to that clause and to the Joint Stock Companies' clauses— A.—There should have been some other clauses excepted.

Q.—What is the difficulty that you anticipated with the section as it stands here? A.—One of the clauses I have in mind now is that the Joint Stock Companies' Act provides that ten per cent. per annum shall be paid up in respect of Joint Stock Companies' capital until it is all paid up. There was no intention to pay up more than a certain percentage of our stock and therefore it made it inoperative.

Q.—You thought by passing the resolution of shareholders that this contemplated that that would bring you under the operation of some section in regard to your shares that you did not wish to operate in your company? A.—That were inapplicable to an insurance company.

Q.—You had another Act passed next year which repealed that section and set out in more detail the extent to which the Canada Joint Stock Companies' clauses should apply? A.—Yes.

Q.—The section of the Joint Stock Companies' Act, 38, applies to your company, and that provides that, "No loan shall be made by the company to any shareholder," etc. (reads clause). So that the section of the Act that is incorporated in your Act clearly provides that loans to shareholders shall not be made? A.—It provides for it, but I do not think it is any too clear.

Q.—It seems to create a liability on the persons approving of it, not only to the company, but a liability to the creditors who become creditors while that loan is in existence? A.—That would seem to be the intent.

Q.—Do you think if you were defending some directors you would be able to drive through that section? A.—I may say the opinion of the solicitor at that time was that that section of the Act referred to loans to shareholders on their stock, and not to shareholders on other securities.

DR. JEFFERY: Loans on its own stock which would impair its capital practically; it does not say so.

MR. TILLEY: It would be rather hard to incorporate that. No loan shall be made to any shareholder? A.—As I remember the argument at that time I think the solicitor held that if it was meant that the company should not lend to any person connected with the company it would have included officers, directors and other persons as well.

Q.—At any rate that section was considered? A.—Yes.

Q.—At what time? A.—I think about the time.

Q.—You made the loans? A.—I cannot say as to that, but it was some time after the passing of the Act at any rate, and what its bearings would be on the company.

Q.—What brought it up for consideration? A.—I am unable to say, I cannot recollect.

Q.—There is an express provision allowing the company to re-insure against loss? A.—Yes.

Q.—Possibly that was not necessary, but it is there anyway, so that you— A.—It might be necessary in some cases..

Q.—But whether it might be necessary to have it in the Act you have the expression here any way? A.—Yes.

Q.—Where companies enter into agreements to re-insure do they arrange a definite basis for re-insuring policies in general, or do they take

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

up each application for re-insurance by itself and consider it on its merits? A.—I think the practice varies considerably, some companies do it one way and some another.

Q.—Some companies have agreements with other companies regarding re-insurance? A.—Yes.

Q.—You have one with the Imperial? A.—I think we had at one time, or we were contemplating something of that kind, but I do not think it was ever carried into effect.

Q.—Have you agreements now with any company? A.—There is a general agreement prepared by the Life Managers' Association.

Q.—That governs all the insurance companies that are represented in the Association? A.—In so far as they choose to avail themselves of it.

Q.—That is settled terms that are adopted by the managers as being fair and proper? A.—Yes, as to matters of principle.

Q.—Could you let me see a copy of yours? A.—I think we could.

Q.—You had express power put in this Act to raise money for the purpose of making good impairment of capital? A.—Yes.

Q.—And I suppose that that was regarded as one of the important things in seeking the legislation, was it not? A.—Yes, one of the important ones.

Q.—Section 3 is rather a long section—it was acted on twice in your company? A.—Yes.

Q.—Once a four per cent. bonus and another time a six? A.—The first one was nine and the second one was four.

Q.—1885 and 1889? A.—Yes.

Q—It reads this way (reads section 3). Those clauses would seem to indicate that the company was passing through a rather strenuous period? A.—At that time.

Q.—It was then how old? A.—About ten years

Q.—The capital was impaired to what extent? A.—About $20,000.

Q.—Out of how much paid up? A.—$33,650.

Q—So that it was more than half? A.—Yes, sir, nearly two-thirds.

Q.—And this legislation was passed in order that the directors might make good that impairment? A.—Yes, or rather the shareholders.

Q.—That the directors might raise money, I mean? A.—Yes.

Q.—Were you connected with the company then? A.—At the time of the passing of that Act?

Q.—Yes? A.—Yes.

Q.—You were Manager then? A.—Yes, sir.

Q.—Was this your idea, or was it the idea of other persons in the company? A—I can hardly say.

Q.—Was it the joint product? A.—It was probably a joint product.

Q.—At any rate it was approved by all? A.—I think it was unanimously approved of.

Q.—It was approved, you say, by the minority of the shareholders as well? A.—I think every shareholder signed the document in connection with it.

Q.—So that there was no dissenting voice? A.—If there was in the start at any rate there was not in the end.

Q.—You satisfied them ultimately that it was proper? A—Yes.

Q.—You say that was all in the interests of the company? A.—It was absolutely necessary at that time.

Q.—Leaving out any idea that there was any intention of doing anything that was not perfectly fair and proper do you think the legislation itself taken without regard to your particular circumstances at that time is proper sort of legislation? A.—I do not see any objection to it.

Q.—You say you see no reason, it does not enable the company to raise more than the par of the stock? A.—No.

Q.—There is that limitation; the man is not compelled to pay more than his capital stock any way? A.—It does not penalize anyone.

Q.—The only thing it does is to compel him to pay by way of a premium on the stock instead of paying as a call on the stock; the company could raise it by call anyway without these sections? A.—Yes.

Q.—But that would not overcome the impairment? A.—No.

Q.—This Act as it was passed enabled the company to require payment from the shareholders, and the shareholder was not paying up his stock thereby? A.—It was not to be so intended.

Q.—Then there is a clause here that any shareholder transferring his stock should remain liable; I suppose that was for a certain number of months, 15 months, that was to prevent any

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

person seeking to evade his fair liability by making a transfer of his stock? A.—My impression is that clause was put in by Parliament; my impression is that that was incorporated either in Committee or in the House.

MR. TILLEY: Is that right?

DR. JEFFERY: I am not quite sure; I do not think it went down. Of course Mr. Magee was the solicitor for the company; I do not think it went down.

MR. TILLEY: You have had one Act since then, 1891, and it repealed section 14 of the previous Act and enables the directors to fix the rates, rules and conditions under which the policies should be issued; do you know why that was desired; had there been any difficulty arise? A.—I think the object of that amendment was to give us somewhat wider powers of investment. Originally that was very restrictive. Then when we were applying for that Act I think we also incorporated some other things in view of our having in the meantime undertaken the business of industrial insurance, and that established a separate class not contemplated originally, and it was thought desirable to make it clear we had the power to do that as well.

Q.—That is by section 3 (reads); is that the section you refer to? A.—Yes.

Q.—Have you observed the directions of that section as to keeping the business separate? A.—Not when you confine it to that section alone, but there are other sections there along with that section.

Q.—Look at it and tell me? A.—I do not see the point I have in mind.

Q.—State what it is? A.—It is what I have already stated, we had undertaken the business of industrial insurance in the meantime--

Q.—But what I was asking was this, this section three is the section under which you have established different branches of insurance including the industrial? A.—We did not establish it under that section, because it was established under sections in the previous Act of 1884 and 1885.

Q.—This section would operate with respect to that? A.—Except it might be a little wider that we could establish certain wholly mutual classes.

Q.—It does go that far, or partially mutual? A.—Yes, in so far as it is partially mutual it applies.

Q.—Whether or not you come under that section, tell me to what extent you have observed it, if it is applicable and to what extent you have not? A.—We have not established any wholly mutual classes, but we have established partial mutual classes.

Q.—What do you mean by partial mutual classes? A.—Industrial for instance is by its terms a non-participating business, but provision is made for if in the estimation of the directors of the company the holders of that class of policies would seem to be entitled to profits that they may give them profits without actually constituting them participating policyholders of the company.

Q.—Where is that provision? A.—In that partial mutual class.

Q.—Where have you set out what the directors have decided with regard to that? A.—By by-law.

Q.—Which by-law? A.—It is incorporated in the by-laws governing the industrial business.

Q.—Would you refer me to it? A.—(Shows).

Q.—You refer to a by-law at page 18 of the Minutes, dated 7th July, 1887? A.—Yes.

Q.—There have been many amendments throughout your by-laws regarding this portion of your business? A.—Yes.

Q.—From time to time as you thought proper to make changes you incorporated them into your by-laws? A.—Yes.

Q.—So that to get the whole history one would have to follow through all your by-laws? A.—Yes.

Q.—We will come to your policies later and we will refer to it in that connection. Now would you come to a definite conclusion about the loan; the Vice-President thinks he scores? A.—That seems to be the loan.

Q.—But that is on a policy? A.—I was probably mistaken, I remember it was a loan, I thought it was a stock loan.

JUDGE MacTAVISH: What is the fact as to Dr. Jeffery? A.—It appears to have been a loan on a policy of $300.

MR. TILLEY: And in existence only for a short time? A.—Yes.

Q.—Then as to Mr. Bowman? A.—It was James H. Bowman, loan on 220 fully paid-up shares of the Ontario Debenture Company.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—As to Mr. Bowman's loan it appears to be a loan to Mr. James H. Bowman of 220 fully paid-up shares of the Ontario Loan & Debenture Company's stock, $10,000 payable 31st December, 1900, the loan amounted to how much—$8,089.40? A.—Yes.

Q.—And then a subsequent cheque of $1,910.60, making in all $10,000? A.—Yes.

Q.—That was in 1900? A.—Yes.

Q.—And was this gentleman a director, or was he the son? A.—He was the son of the man I had in mind.

Q.—And this man himself was not a director at the time? A.—Not at that time, and never has been. In so far as my evidence in that particular respect goes I was mistaken. I owe Dr. Jeffery an apology for having brought him in.

Q.—The company commenced business in July, 1874, and took out the Dominion license after the second Dominion Act? A.—Yes.

Q.—You say the original capital was $112,500, and paid-up 20 per cent., was it not? A.—Whatever is there are the facts.

Q.—Making $22,500, and then subsequently subscribed capital was increased to $223,000, and later on on December 3rd, 1891, it was increased to $225,000? A.—Yes, that is right.

Q.—The paid-up capital was increased on February 25th, 1881, by a five per cent. call to $33,650, and by another five per cent. call to $33,750, and on October 4th, 1894, of ten per cent., and on November 1st, 1894, another call of ten per cent., is that right? A.—Yes.

Q.—With a further call of five per cent. on all previous subscribed capital, making one per cent. on the whole of your paid-up capital, making $50,000? A.—Yes.

Q.—Having increased the capital by $25,000, on September 6th, 1894, then you made two calls of 10 per cent. on it, with that amount bringing it up to the old capital, and then a five per cent. call on the old capital, with this new capital bringing it all up to 25 per cent.? A.—The capital in the meantime was doubled up, and some of these calls applied only to the additional capital, so that it brought it up to a 20 per cent. in all.

Q.—There was 15 per cent. called on the old stock, you now make 20 per cent. call on the new stock, and then you added to that the 5 per cent. call on the old, making them all even? A.—Yes, that is the position.

Q.—And so the whole paid-up capital is $50,000? A.—Yes.

Q.—You made these two special assessments, one of $9 and the other of $4 by the directors, and you made them I suppose under the power contained in this second Act? A.—Yes, sir.

Q.—Were these instalments paid by all shareholders, or did you have to do any financing in connection with that matter? A.—They were all paid according to the agreement, I might perhaps make the explanation they were not paid in cash at the time that the assessment was levied, but provision was made in the same Act for taking security in a certain form, and security was taken in the form provided by the Act, and the calls were paid in the ordinary course of business under this agreement.

Q.—Did those calls make the impairment good? A.—Yes.

Q.—That brought it up so that there was no impairment; when did the impairment cease, in 1889 when the last call was made, or did the 1884 call for the time being wipe it out? A.—The 1884 call for the time being wiped it out, or probably more correctly 1885 call.

Q.—Subsequently there was a further impairment? A.—There was not actually a further impairment subsequently, but there would have been if it had not been made good in that way.

Q.—The call was made in time to prevent the impairment appearing? A.—Yes.

Q.—That is what you did? A.—Yes.

Q.—Why was the first impairment created, by reason of what conditions? A.—It seemed to be simply a case, the business did not pay up to that time, they were gradually going behind.

Q.—Did it have worse luck than ordinary companies starting for the time being, without at all reflecting on it now?

DR. JEFFERY: It had accident insurance policies; it had incorporated in its business at that time some accident insurance? A.—Yes.

MR. TILLEY: That accident insurance was not continued by the Dominion legislation? A.—No.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—And the two in your opinion should not be combined? A.—I do not think they should.

Q.—Because there is the risk in the accident business that may affect the life insurance business? A.—Yes, peculiar hazards, I do not think it would be consistent with the life business.

Q.—The Dominion Act does not permit it? A.—No.

Q.—When the last call was issued, on September 6th, 1894, it was issued at a premium? A.—A small amount was issued at a premium.

Q.—$4 per share? A.—Yes.

Q.—That I suppose was just in line with the bonuses, to prevent any impairment of stock? A.—No, that was not the object of that; the object of that $4 a share premium, on that particular amount of stock then issued was to bring it up to the same standing as the other shares who had contributed $4 assessment just before.

Q.—Just to level up all the shareholders? A.—So as not to have two kinds of stock outstanding on our books.

Q.—Without going back so far as 1884 in detail, can you tell me what caused the impairment in 1889, or what threatened to impair your capital in 1889? A.—It was due to two reasons; we disposed about that time of a block of stocks on which we made a considerable loss—

Q.—That was another transaction that would give you some similar education to carrying on accident business with life insurance; this was an investment that would give some education in that way? A.—Except the fluctuations would not likely be so great.

Q.—What stocks were they? A.—The stocks that we disposed of at that time were 400 shares of Dominion Savings & Investment Society.

Q.—It was disposed of at 90? A.—Yes.

Q.—It was a wise sale I understand? A.—We thought so at the time.

Q.—Did the subsequent events prove that to be so? A.—I think so.

Q.—So that it was not a loss brought about by an injudicious sale, and it was an authorized investment? A.—Yes.

Q.—What was your loss on that, $7,000? A.—Somewhere in that neighborhood.

Q.—What else contributed? A.—We undertook the industrial business about that time, and that was taking a little extra money to establish it, and when we levied an assessment we levied it sufficient to cover this loss and some anticipated extra heavy expense we would likely be under for the next few years.

Q.—That brings us to a little consideration of the industrial business? A.—I think it might be fair to say there that the share of the assessment that went to the industrial business was very small.

Q.—I will be glad for you to give the fullest information about the industrial business, I will give you an opportunity for saying everything you want to about it, because we want to get your experience in connection with industrial business; yours is the second or third company we have had that has carried on any industrial business, and you have a fair volume of that at the present time, have you? A.—Yes.

Q.—You regard that at the present time as being on a profit-paying basis? A.—It has been for a good many years, paid its way after about the third year.

Q.—We have had some information given to us as to the expense of building up that sort of industrial insurance, one company spending as much as something like half a million dollars to get the business established; do you regard it as necessary to pay out as much money as that to get industrial business started? A.—Certainly not necessary.

Q.—Tell me in general terms what your company's experience has been in that regard? A.—As I said a moment ago, after the third year the business paid its way.

Q.—Were you endeavoring to develop it rapidly? A.—Not very.

Q.—You were taking it on slowly? A.—Yes.

Q.—When you say taking the business slowly do you mean taking it on in limited areas? A.—Yes.

Q.—That is what keeps down the expense of the industrial business? A.—Our policy at that time was to open a limited number of places and work them thoroughly, and extend as the circumstances admitted.

Q.—The expense in that business is in making the collections? A.—That is part of it, but I think the heavier expense probably would be in getting the business.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—At what age do you commence to insure children? A.—Two next birthday is the next age we insure.

Q.—That is between one and two years of age? A.—Yes.

Q.—Do you in any way limit the amount of insurance you will put on up to five years of age? A.—The amount of insurance is limited by Act of the Legislature of Ontario up to ten years of age, but previous to the passing of that Act we limited it in like manner.

Q.—There is no Dominion legislation limiting it? A.—No, not that I know of.

Q.—Tell me what limit you had established without regard to the Ontario Legislature? A.—Practically the limit that the Ontario Legislature put on it later on.

Q.—Was there any agitation at the time the Ontario legislation was passed with regard to industrial insurance? A.—I think there was some.

Q.—Brought about by what class of person, by the companies, or was it public agitation? A.—No, I think it was one of the parties interested, it was Mr. Kelso in Toronto, and if you have any idea of his relationship, he has something to do with the neglected children—

Q.—It was agitation taken up by a person from a public standpoint? A.—I think so.

Q.—Against child insurance in toto? A.—I think that was the original idea, the whole thing was wrong.

Q.—He thought it was wrong? A.—Yes.

Q.—The argument being what, briefly? A.—I think they had the idea that it might result in children being neglected, or that parents might insure their children for gain; those were the general foundations for it.

Q.—Would you say frankly to the Commission what the result of your experience in that business would lead you to believe in that regard? A.—I have no hesitation in saying that so far as our experience goes, we have never seen or heard of anything that would lead us to believe there would be any justification for such a view.

Q.—Would that apply if there was no limit to the amount? A.—It might not.

Q.—You think the amount of insurance that can be put on at certain ages should be restricted? A.—I think so.

Q.—What do you say as to the restriction that is enforced by Ontario legislation? A.—I think it is very conservative.

MR. LANGMUIR: What is the maximum amount? A.—The minimum amount is $20, and the maximum amount at age ten is I think $160.

Q.—What amounts have you upon your books as compared with your general insurance? A.—It is about half and half.

MR. TILLEY: This exhibit gives the amounts of insurance you put on? A.—Yes, sir.

Q.—Would you say which of these circulars is the last one you have issued? A.—I would think this would be it.

Q.—I will put in these tables of rates; the earliest circular is the first in the list and the latest the last? A.—I think that would be their order probably; the dates are on them.

—Forms of circulars filed as Exhibit 295.

MR. LANGMUIR: Do you confine your business to towns and villages or does it extend to the country? A.—Largely to cities and large town, and only the larger towns, unless a village is adjacent to one of the larger towns.

Q.—It is too expensive in the country to collect? A.—Altogether too expensive, it could not be done.

MR. KENT: Do you do any great amount of that kind of business in the City of Toronto? A.—We have a large business there.

Q.—And do you think in times of commercial stagnation that child insurance would not be likely to lead to the abuse which Mr. Kelso had in view? A.—It would if the amount was not limited, but when the amount is limited to a sum that is barely sufficient to pay funeral expenses I fail to see what object there would be.

Q.—In your opinion it would be dangerous to insure without that limit? A.—I think it would be dangerous to extend it to an unlimited amount. It might be extended somewhat beyond what it is now, and still be safe; in fact I might say the more recent increase in the cost of funerals might justify the extension. I do not think the amount now is sufficient to defray funeral expenses. As far as we are concerned we are satisfied with it because we never desired there

should be any temptation to do wrong, and we have limited for years before that Act was passed, in fact I may say all industrial companies did so voluntarily as a mere business proposition.

MR. KENT: You do not agree with those who held that child insurance holds out a direct encouragement to neglect the child by the parent if they are viciously inclined? A.—I do not think so under existing conditions.

Q.—Your experience has led you to form a contrary opinion? A.—I think so.

MR. TILLEY: Where the business is properly controlled and kept within limits? A.—Yes.

Q.—I suppose it is very natural, if it was allowed to run rampant, that there would be trouble in that regard? A.—Any good thing is capable of abuse.

Q.—That is one thing that should be restricted? A.—I think it is wise to restrict it to a reasonable limit.

Q.—The death rate in that kind of insurance cannot be measured by mortality tables that are used for ordinary insurance? A.—No sir, I would think not.

Q.—Why not? A.—The manner in which the business is conducted would militate against that. Very few industrial insurance applicants are medically examined to begin with, and we naturally get a larger number of impaired lives.

Q.—There is an inspection more rather than an examination of them? A.—Yes.

Q.—You would take rather the popular public death rate? A.—That would be the way.

Q.—These are not select lives? A.—Apart from selection we get the advantage of our own agents. I think our death rate is about the ordinary death rate in a community.

MR. KENT: I suppose the inspection is more as to the parents than the child?

MR. TILLEY: I suppose the appearance and general conditions? A.—It is supposed to cover both, an agent is not supposed to seek to insure a child of disreputable parents.

MR. LANGMUIR: And domestic conditions? A.—We cannot enquire into everything.

MR. TILLEY: Q.—That phase of it is not on a very high plane with the class where you would get a good deal of industrial insurance; I suppose the well-to-do people do not take out much industrial insurance? A.—I think I may say they do not take out industrial insurance, but there are some very well-to-do people who do take out industrial insurance, and who are very much in favor of it; I think they do it more from the standpoint of encouraging it.

Q.—It is expensive insurance? A.—It is naturally more expensive than ordinary, because it is in smaller amounts.

Q.—Could you give any average rate of increase for ordinary business expense? A.—I should judge the cost of conducting industrial business would be 50 per cent. greater than ordinary.

Q.—You would not go as high as some have mentioned, 90 per cent? A.—That has not been our experience.

Q.—That is what gives you your best information? A.—Yes.

Q.—Is the rule in the United States that higher insurance is allowed to be put on children, or lower, or the same? A.—It is pretty much the same as it is in Ontario.

Q.—I have been informed that it is about twice as much as is allowed there? A.—I think that is a mistake, although I cannot say as to any reason in my mind; I am basing my opinion on the fact that the representative of the Metropolitan Life, who also do business in Ontario, was present at the time of the passing of the Act in Ontario. and we had at that time the provisions of the New York State Law governing, and my recollection is it was very similar to what we were contemplating.

Q.—Had you any agreement with the Metropolitan Life regarding industrial insurance? A.—In what way?

Q.—Any way? A.—We have an agreement with them regarding the employment of agents.

Q.—And any other matters regarding rates? A.—No, nothing of that kind.

Q.—Have you the agreement here? A.—We will send for it.

Q.—You do not allow what would be regarded in the ordinary terms as surrender values on your industrial policies, do you? A.—No sir, only paid-up policies.

Q.—That is a person holding an industrial policy can at the end of, I think, five years' payment— A.—Yes

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—He can surrender that policy and take out the paid-up insurance? A.—Yes.

Q.—Payable at the same time that the original policy would have been paid? A.—Not exactly, the paid-up insurance is a term insurance.

Q.—What do you mean by that, give me an illustration? A.—That would apply more particularly to the whole life plan, and if it was ordinary whole life policy it would be payable only at death; in the case of these small industrial policies the paid-up insurance is so small that in a great many cases if it was made payable at death the company being out of touch with the policyholders, it would be very difficult to know when you were done with that contract; consequently the paid-up insurance is a term policy extending over the expected period of life at the age at which the paid-up policy is issued, and we give a paid-up policy for the amount the reserve would purchase as a single payment.

Q.—You take what would be purchased by the reserve as a single premium on a policy, but you do not make the policy payable at death? A.—No, in the case——it is payable at death, but if death occurs within the term for which it is issued.

Q.—Otherwise it is payable at the end of the term? A.—If it is an endowment policy it would be payable at the end of the original endowment term.

Q.—But if it is a life policy you do not make it subject to the condition of death absolutely? A.—Not absolutely.

Q.—Because that, as I understand you, would make what you might regard as such a trifling amount of insurance, such a small fraction of insurance that it would cease to be of value, or paid much attention to either by the company or the insured? A.—We would fear in a great many cases people would lose their policies and would forget all about it, and we would have no idea when we would be through with the contract, no finality about it.

Q.—Your solicitor says at the end of the term if death has not occurred, the policy lapses? A.—Of course that is the principle of term insurance.

Q.—It is a term insurance, so that if death does not occur within the term of the expected life then the policy lapses and the company gets the entire benefit? A.—The contract has expired.

Q.—Would it not be fairer then, if that is the way the thing is applied and worked out, to give the insured a continuing policy so long as the premium can be paid out of what you call the reserve? A.—That would be equally fair.

Q.—Would not that be a better way of working it out? A.—It might be difficult to work it out in practice.

Q.—Why? A.—To keep track of it in that way.

Q.—The amount of the policy for the term would be larger than it would be in the way I have indicated? A.—Yes.

Q.—There are arguments pro and con in connection with that, I can see that? A.—Yes, our aim was to make it practicable and at the same time do justice to these policyholders.

Q.—That is to some extent in lieu of a surrender value? A.—Yes.

Q.—Is it something that the insured must apply for? A.—I think the terms of the contract provide that they must make application.

Q.—Within a certain time? A.—They have to sign an application for a paid-up policy within a certain time.

Q.—If that application is not received within a certain time what do you do? A.—Usually it is followed up by writing to the agent in charge of the debit that that particular policy, is on, and reasons ascertained why these people are in arrears, and all that kind of thing.

Q.—You do not communicate direct with the insured or with the parent of the child? A.—In some cases we do, but in most cases not, because the business is so voluminous it would be difficult to deal direct, and the head office does not even know the addresses of these people.

Q.—If you do not have the premium paid then I suppose you write to the agent to ascertain why it is not paid? A.—Yes.

Q.—Do you make any inquiry to ascertain as to the health and condition of the insured before you see the insured or urge upon the insured to renew? A.—Not from the head office.

Q.—The agent expects to just let the matter drop if he has reason to think that that would be in the financial interest of the company to do so? A.—No sir, the agent is expected to

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

see these people and get a paid-up policy if they do not continue their insurance.

Q.—Do you say the honest desire of your company is that if the insured will not continue the policy that he shall get a paid-up policy? A.—That is our desire.

Q.—But you still make it depend upon the application for it? A.—Yes, we find it pretty difficult of course to deal with it in any other way, because we have to have certain data to base the amount of term insurance they are entitled to.

Q.—Tell me what would be the value to the company of lapses occurring in policies after five years by reason of the insured not applying, what percentage of the cases do you give paid-up policies for a term, and in what percentage do you reap the benefit by lapse? A.—I can only answer that question off-hand.

MR. REID: Very few cases.

MR. TILLEY: Can you say what percentage?

MR. REID: I do not fancy more than ten, less than ten rather than more.

MR. TILLEY: Q.—Do you think the people who take that class of insurance understand the transaction, and the rate that is being paid? A.—I think, generally speaking, they understand it better than ordinary insurance, because, particularly if they are old country people, they are fairly familiar with it; it is very common there.

Q.—What portion of your insurance in that branch is endowment as compared with whole life? A.—Roughly, I would think about 50 per cent. of it. Mr. Reid can tell you.

Q.—What percentage would you say, Mr. Reid, is endowment as compared with whole life in the industrial business?

MR. REID: The blue book shows it here. They are just about even, that is on the total business, not on the infantile alone.

MR. TILLEY: I want the infantile. The return that you sent here does not show separate the different plans of insurance with respect to infantile?

MR. REID: Not as to infantile; it separates the total business.

MR. TILLEY: Does not the form naturally call for division in both?

MR. REID: I think not.

MR. TILLEY: As I understand you press the endowment rather than the whole life, or make a feature of it?

WITNESS: No, I do not think that would be fair to say that.

Q.—A large part of your industrial business is endowment? A.—I think about 50 per cent. of our business as a whole is endowment; if you are referring to the infantile alone I would think fully 75 to 80 per cent. endowment. I may say for the last four or five years Mr. Reid has had charge of that part of the work. As regards our pressing for it, I think it is the other way around, I think the people naturally prefer it.

Q.—I mean you are making a feature of it; that you had such policy that the people chose rather than whole life? A.—The people choose it. The compensation to the agent is the same.

Q.—Do you get many complaints from people who say they are misled? A.—I think in proportion to the volume of business being transacted very few indeed.

Q.—I do not know that I should read a complaint till you have read it yourself? A.—This is the case Mr. Jackson had at the office this morning, Forsyth.

Q.—You have read this already? A.—I did not read it personally, I turned it over to a clerk who had charge of that part of the work, and he looked into it and placed the correspondence before Mr. Jackson, and he is familiar with what was done in that case. Mr. Jackson expressed himself at the time as perfectly satisfied.

Q.—I just wanted to ascertain what you have to say about the general complaint in that Department of the business; do people complain either through ignorance or justified, do you get a good many complaints? A.—Not a great many, there are a few, and whenever we get a complaint the matter is investigated.

Q.—Do you investigate where the complaint is trifling? A.—We do if the complaint is of that character such as calls for——

Q.—How do you go to work to investigate it? A.—Usually forward the letter to the superintendent of the district and ask him to make an investigation, and if there is no superintendent we send it to the assistant

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

superintendent, and he makes a report and findings.

Q.—And what then? A.—That usually settles the matter, because on investigation it turns out that the people are either mistaken or there is not any valid reason for their complaint; and if so he reports accordingly and that ends it.

Q.—Did you ever have to discharge an agent in that branch of your business by reason of some impropriety in getting business, misleading the persons interested? A.—No doubt such things have happened.

Q.—Do you do considerable business in Montreal and the Province of Quebec? A.—We do no business in the Province of Quebec.

Q.—You do not mislead people in that Province? A.—No.

MR. LANGMUIR: How does the persistency compare with ordinary insurance? A.—The lapse rate is much greater.

Q.—Assume you write a thousand industrial policies in 1904, about what percentage would remain current in 1906? A.—That would be two years, I would judge not more than 40 per cent., I think about 40 per cent. goes off the first year and another 20 per cent. the second year; these are just round figures.

MR. TILLEY: The agents in your company in the industrial business are employed, I think, on the basis of this form of agreement? A.—Yes.

Q.—Are they all on the same basis? A.—I think pretty much.

Q.—I mean to say as to the quantum of remuneration? A.—There may be a few exceptional cases where the district is of exceptional character, but under normal conditions they are all on that basis.

Q.—I will put in this document as an exhibit, but the exact percentages paid are not material probably (filed as exhibit 296).

Q.—In the first place the agent gets a percentage on the collections he makes each week? A.—Yes.

Q.—That is his list is given to him of premiums due in the week? A.—Yes.

Q.—And that is called his weekly debit? A.—Yes.

Q.—That is what he must try and collect during the week? A.—Yes.

Q.—And he is paid in accordance with the amount he gets in of that? A.—Yes.

Q.—Then besides that commission he gets another commission for increasing his debit—taking the last maximum debit as the standard, and whatever he gets above that at any subsequent week he gets something for that increase? A.—Yes.

Q.—That is common to all industrial business? A.—I think so.

Q.—And is it right to say the rates of commission paid to these agents is standard as between the companies? A.—I think pretty much so, that is where there is competition.

Q.—I am asking in Canada, do you know how your rate, for instance, compares —— A.—You mean the rate of remuneration to agents?

Q.—Yes? A.—I would judge, if anything, we are lower than most of our competitors, Mr. Reid could say more definitely.

MR. TILLEY: Q.—Can you say, Mr. Reid, whether the rates of commission paid to agents with respect of industrial business are uniform amongst companies in Canada?

MR. REID: They are not uniform; they are not unform with one company particularly, because they change their basis almost every three months.

MR. TILLEY: I do not know whether that agreement you had covers the rates of commission?

MR. REID: No.

MR. TILLEY: Then you have your standard? A.—Yes, and I think in general there is a similarity in the manner of remunerating agents.

MR. REID: There cannot be great variation or the agents would flock to one or the other of the companies?

MR. TILLEY: In fixing the remuneration for the increase of the debit you pay him by a certain number of times of that increase? A.—Yes.

Q.—If he increased the debit by $2 in any week, that would be of course a very high increase? A.—Yes.

Q.—And if he should increase it by $2 in any one week you might give him, seven, eight, ten, twelve, whatever your contract is with him, times $2 for that week's work? A.—That is the way it would be worked out.

Q.—Taking upon that average can you say on the average what a man working in a reasonably populated district can earn as an agent? A.—I would judge from ten to twelve dollars a week. Of course there are men who will not earn so much and men who will earn a lttle more.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—What would be a fair weekly debit for a man in that locality? A. —Probably $40.

MR. REID: That is rather an excessive amount.

MR. TILLEY: I am taking for agents generally; about $40 would be a fair amount for a man to have on his books— A.—I am taking an average.

Q.—The method of remuneration I suppose is intended to anchor the agent? A.—Partly that and to maintain the business, to keep the business on the books.

Q.—I suppose anchoring the agent tends to keep business? A.—Yes.

Q.—Because the agent is the person who has personal touch with the business? A.—Yes.

Q.—I spppose it is of considerable loss where the agent leaves? Usually there is some loss.

Q.—If an agent leaves with a weekly debit on his books of $30, and his book is given to a new agent to collect the old debit, what allowance, if any is usually made—I am not asking you to disclose any particular contract; what is the nature of the arrangement an industrial company makes with the new agent? A.—A new agent is given a certain number of weeks' grace in which he has an opportunity of ridding the debit of any objectionable business, and then he starts from that point.

Q.—After he gets it in a healthy condition—if it is demonstrated that this weekly debit which he got as being worth $30, is only worth $25 he is started at $25, and he is paid his increase on the basis of $25? A.—Yes.

Q.—Do you have considerable loss with agents defaulting? A.—Not a great deal.

Q.—I notice at one time you decided to experiment with putting some bonds on agents? A.—We nave most of our agents bonded, I think what you have reference to is we had decided to experiment with a system of bonding our agents under a blanket bond to save the trouble of individual bonds, but nothing came of it; we were not able to make satisfactory arrangements at the time.

Q.—You do have individual guarantee bonds, does that apply to all your industrial agents? A.—I think very generally.

Q.—If an agent leaves with a debit is there much chance of collecting, or is it a loss? A.—I do not quite comprehend your question.

Q.—Where a man leaves, even although you have the guarantee, bond, do you succeed in getting any money he takes with him, or is it so trifling and small it is not worth following it? A.—The amount may be so small it is not worth much, and if it is much we would follow it and usually succeed in collecting it.

Q.—But you must have cases where a man gets discouraged and leaves? A. —In that way he might not be criminally liable or not liable on the bond.

Q.—Do you lose a substantial amount of revenue? A.—I think there would be quite a little loss of that kind taking the year through. That would be different from an agent defaulting, and we would not expect to collect that from his guarantor, that is a business chance we take.

Q.—Do you make any remuneration to an agent based on the percentage of his debit he can collect, giving him a high standard to work, and a certain bonus if he gets within that standard? A.—There is a third source of remuneration.

Q.—The lowest percentage being what, about 90 or about 95? A.—I think 90 is the lowest percent.

Q.—And give him a certain bonus at 90 and another one if he gets up to 95 or 96, and another one at 98, so that there is some object to make a supreme effort to collect almost the whole of the debit? A.—That is not really the object we have in view; the object we have in view is to hold out an inducement to anv agent to keep his debit in a clean healthy condition, that is not to carry a lot of dead timber.

Q.—Is the agent concerned with the death rate in his district? A.—No.

Q.—Does he get any per cent. over and above the amount that is paid out for death claims? A.—No.

Q.—What would you sav was a fair number of times to multiply the weekly debit by in order to fix its value or a fair cost for it, what is your weekly debit? A.—About $5,000 a week.

Q.—Supposing you were asked to place a value on that, I am not asking to bind yourself to take it or anything of that kind, or to pay the price, what would you say was a fair standard—the way you fix the standard I understand is by multiplying it by a certain number? A.—That is the way some people fix it.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—That is the way we have had it fixed for us? A.—I do not think it can be fixed in that way in fairness.

MR. LANGMUIR: Perhaps the principle is wrong? A.—That would be one factor but only one of several.

MR. TILLEY: Q.—We have had it said to us it is fair to multiply the weekly debit by 130, and that the gross amount that results from that simple sum in multiplication is a fair amount to put in a balance sheet as being an asset representing the good will or the selling value of that business; what would you say about that? A.—I should say it would depend entirely upon the age and character of the business.

Q.—Tell me what force you mean to give those works "age" and "character?" A.—If the business was a good many years standing, a business being bought by another company of that character would be worth manifestly much more than business that would be only of a few years standing; it would be established, and have a permanency, and there would go with it a very large sum of reserve out of which the buying company would probably make some money in future investments.

Q.—Established agencies and all that sort of thing would go with that sort of business? A.—Yes, and if I were buying that business I should want to scrutinize the character of the business, how it was distributed, if it was scattered all over the country in small amounts and in small places not likely to be remunerative I should not want to pay a very big price for a business of that kind.

Q.—You would say it is absolutely or almost impossible to fix any value except with respect to some concrete case? A.—I would think so.

Q.—And it would not be fair to say because a certain other company got paid that amount under certain circumstances that that therefore establishes the value? A.—I think that would be absurd.

MR. LANGMUIR: If the conditions you speak of were all favorable, the ideal conditions in respect of location and all that, would the basis of value of 130 times the debit be a fair one? A.—I would think it would be an excessive amount, it would have to be very choice business, and very well established, and considerably large to be worth any such money.

MR. KENT: Q.—Would you advise your company to accept a similar offer for your business? A.—I would not like to say I would, because I do not see any reason why I should advise the company to sell its business, because it is a paying business, but if they wanted to discontinue their busines I would say 130 would be a very fair price indeed to get for it in my judgment.

MR. TILLEY: Has your business cost that to establish? A.—No.

Q.—Nor anywhere near that? A. —No.

Q.—Would you say that would be a fair estimate for the cost in getting your $5,000 weekly debit? A.—I can probably answer that best by giving our experience. Up to 1900 previous to the new 3½ reserve standard coming into force, the aggregate average cost of our business up to that time was about 65 times the weekly debit, just about half the figure you have put it at, and I think that would be an extreme cost, it would not exceed that.

Q.—You think that a business that is being developed in a healthy way should not cost much more than that 65 times? A.—Not up to that point. Of course the larger the debit the more expense, the older the company the more expense, on the basis of times, because that is not really a factor that governs in estimating cost over a period of years; you can take the cost of any one year accurately, but you could not apply it over a period of years. I could imagine in an old company it might run up over 300 times, because there is a great deal of business comes on and goes off, and it has to be paid in the meantime, and other business takes its place; if it was all attributed to pure increase it would make the cost very high in the old company.

Q.—There is another matter, that is as to the valuing of policies for the purpose of reserve, what method do you adopt with respect to industrial policies, if any, that does not apply to the ordinary insurance? A.—No difference whatever.

Q.—You take the net premium basis? A.—Yes.

Q.—Do you put a reserve for the first year life of the policy? A.—We do.

Q.—In the same identical way you do for other policies? A.—Exactly the same.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

MR. REID: Except that the premiums are payable through the year. The valuation takes account of the premium being paid in instalments instead of payable in the first of the year. It does not affect the basis? A.—It is merely a different way of working it out; the principle is the same.

MR. TILLEY: Because there is a distinguishing feature in the two cases, one the premiums is spread over the year, and the other it is all paid in either one or two instalments that does not mean any different method adopted? A.—No, the principle is not affected.

Q.—It was suggested by Mr. Harvey that it is quite unnecessary for a company carrying on an ordinary industrial business to carry any reserve in respect of the first year of the policy, did you notice his evidence about that? A.—I think I noticed his evidence, yes.

Q.—And you understand the principle he applies? A.—I think so.

Q.—Or lack of principle? A.—I would say lack of principle.

Q.—Why do you say lack of principle, what criticism do you offer of that, because it is a thing that should be applied to all companies alike? A.—A large number of the policies are endowments in their particular case, the company that he was speaking of, I think all their policies are eventually endowments, or semi-endowments, I think the principle of neglecting any part of the endowment term in the setting up of the sinking fund is wrong.

Q.—I was wondering whether your company made any distinction between whole life policies and the endowment policies? A.—None whatever.

Q.—You value them all the same; Mr. Harvey said that he did not make any distinction either, you think a distinction should be made, you think it is possible to say Mr. Harvey is right as to the whole life policies and wrong as to the endowment, would that be your answer, or is he wrong as to both? A.—I think he is measureably wrong as to both.

Q.—Is this his principle, that in ordinary business the insured is apt to select the more favorable period of the year at which to become insured, because the premium is payable, and based on the next birthday age, is that right? A.—That is right.

Q.—In industrial business there is no such selection as that made, that is there is not sufficient difference to make the applicant take any particular care about that, it is scattered over a year in small payments? A.—I think perhaps that would not be strictly correct, I think there is something in it but not very much.

Q.—It is not a sufficient distinction to treat one policy as having half a man's year of life to run before it comes to his birthday and the other case nothing? A.—Not for that reason.

Q.—What he says is in industrial business you can assume, and he has tested it, that the insured is insured on the average midway in the year of his life.

Q.—That is, if he is insured for age thirty, he is 29½ years old—I am getting beyond industrial and children's insurance—but if he is insured at age 7, 6½ years— A.—I think that will be found in practice to be pretty near the case.

Q.—He says the insurance is taken out also on the average on the first day of July in each year? A.—That I would not think would hold in practice, I think there would be a larger percentage in any one year taken out in the last half of the year as compared with the first half.

Q.—Why do you say that? A.—Because the long duration there is the opportunity for lapsing.

Q.—You have got ahead of me? A.—Out of the business issued in January there would be less in force in January than out of business issued in December.

Q.—Do you say that is a criticism of the statement of Mr. Harvey in that regard, that if you take the policies that are in existence on the 31st January in any year the greater number of them that are in existence are written in the last end of the year? A.—That is true.

MR. KENT: You would expect to find the average date nearer September than any other period? A.—If we were averaging up business in force at the end of the year it would come nearer that than any other month of the year, my judgment would be the average duration of any business would not be more than 4½ or 5 months. If you let Mr. Reid answer that—

MR. REID: I think as far as the year of issue is concerned that that would be more likely the case.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

MR. TILLEY: The last year's policies are running into the first part of that year.

MR. REID: Yes, and after a series of years I think the average date of the birthday might be taken as nearer the 1st July than 1st September, although that would not apply for the year of issue.

MR. TILLEY: It would not apply probably in the early life of the company, but as the company gets older and it gets more established—

MR. REID: More old business—

MR. TILLEY: And that is carried into the first part of the year to supplement to some extent the first business that has gone off?

MR. REID: Yes.

MR. TILLEY: Q.—You say you think it would be improper for an industrial company not to set aside some reserve for its first year policies, and that should be computed just on the same principles as the ordinary life? A.—I would deem it improper, I think a distinction should be made between what is absolutely necessary and what is strictly proper.

Q.—But there is no reason for a distinction between the two classes of insurance? A.—I know of no reason that would be a sufficient reason except they may say the one is less stable, but in practice probably that would be sufficient in one would not be safe in the other, but I think the principle is the same in each case.

Q.—Dealing with endowment policies Mr. Harvey said that the endowment policy he referred to need not be valued,—while an endowment policy like you issue might properly be valued for reserve, because their endowment policy makes the sum payable at ten, twenty or thirty years from the next birthday, so that the portion of life between the issuance of the policy and the next birthday is not included in the term? A.—That would only affect the amount of the value, it would not affect the principle.

Q.—Your policies read, if it is a twenty year endowment, at twenty years from the date of the policy the money would be paid? A.—Yes.

Q.—The policy he referred to said that 20 years from the next birthday of the insured the policy will be paid? A.—Which may mean twenty and a half years.

Q.—He said on the average twenty and a half years? A.—The only difference I can see would be the valuation would be for a 20½ years' policy and the other a valuation for a twenty. I prefer to have it understood I am not criticising Mr. Harvey's opinion, I am only stating my own.

Q.—You are not criticising Mr. Harvey but his opinion? A.—Or rather I am only giving my opinion.

MR. GEARY: Actuaries disagree with one another? A.—They do sometimes, although I think there is as much unanimity among them as in the legal profession.

MR. KENT: Do you do any business in the Province of Quebec? A.—No, we have always found the difference in language a barrier to some extent.

MR. TILLEY: These are the forms you use in connection with paid-up insurance? A.—Yes.

Q.—This is the application form sent in and this is a certificate you issue in the case of an ordinary life policy where there is an application for paid-up insurance? A.—Yes.

Application form and certificate form marked as exhibit 297.

MR. KENT: I suppose you have no arrangement with the Metropolitan to keep out of the Province of Quebec? A.—None whatever; there is no arrangement with the Metropolitan affecting the manner of conducting our business or what we shall do with our policyholders; the arrangement we have is one relating purely to the employment of agents in the same district, that is in view of doing away with unnecessary friction.

Q.—You have no arrangement with any other company to keep out of certain territory? A.—None whatever.

MR. TILLEY: This is the form for the endowment? A.—Yes.

Q.—And the amount for which is actually mentioned because that can be— A.—It is a pro rata share.

Form of application for paid-up insurance under endowment policy filed as exhibit 298.

Q.—We went away from the general organization to industrial insurance before I intended, we will have to go back. You have already stated Messrs. Jeffery control the capital stock, I think, A. A. controls $60,000, A. O. $57,600, J. E. Jeffery $7,800? A.—The amounts stated there are correct.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—And the directors from 1891 to 1892 were Joseph Jeffery, London, President; John McClary, London, Vice-President; Thomas H. Smallman, London; George H. Harrison, Glencoe; Albert O. Jeffery, London; William Bowman, George C. Gibbons, London; William F. Bullen, London; Arthur S. Emery; Sheriff Glass, London; Judge Bell, Chatham. In 1893 Sheriff Glass died, no one was appointed to take his place. 1894 Joseph Jeffery died and no one was appointed to take his place. In 1902 Mr. G. M. Harrison died and the following year Thomas W. Baker, London, was appointed in his place. When Mr. Jospeh Jeffery, the President, died, who became President? A.—Mr. John McClary, the then Vice-President.

Q.—And who took the Vce-President's place? A.—Dr. Jeffery.

Q.—And these officers have continued to this date? A.—Yes.

Q.—You have a Loaning Committee composed of Messrs. John McClary, President, W. F. Bullen, and A. S. Emery? A.—Yes.

Q.—What are the duties of the Loaning Committee? A.—They pass on all applications for loans previous to the loan being granted.

Q.—Do they hold regular meetings? A.—No sir, they are practically at call.

Q.—And do you keep minutes of their meetings? A.—There are no minutes kept of them; they initial the documents they deal with and that is all.

Q.—That is when a loan is probably recommended by you? A.—Yes, and I fill the recommendation for the amount.

Q.—And you assent to the loan? A.—And they approve of it, they simply initial it opposite the amount.

Q.—You have invested considerably in debentures of loan companies? A.—Not to any extent; we did have $60,000 of debentures at one time for deposit purposes.

Q.—That is with the Government? A.—Yes.

Q.—Do you favor that sort of loan or investment? A.—There is no particular reason for not favoring it, except it does not yield as good a return as others.

Q.—Is it to be treated as turning your money over to some person else to invest when you can invest it as well yourself? A.—There is something in that.

Q.—Your loans consist chiefly of what class of security? A.—Mortgages on real estate.

Q.—In what district in Canada are your mortgages chiefly held? A.—Chiefly in Canada in Ontario and Manitoba.

Q.—And how do the rates of interest compare as between Ontario and Manitoba? A.—I think they realize from one to one and a half per cent. higher rate of interest in Manitoba.

Q.—What might be said to be your average rate of interest in Ontario? A.—Probably about 5½.

Q.—And your average rate in Manitoba would be about? A.—I think nearly 6¾.

Q.—That is a high rate of interest on mortgages in Manitoba? A.—It is the current rate there, from 6 to 7 per cent., most of it 6½ and 7 per cent.

MR. LANGMUIR: The cost is more in Manitoba? A.—Yes, we consider the cost is nearly twice as much, probably 50 per cent. greater.

Q.—It affords no rate of comparison with Ontario rates? A.—It has proven profitable.

MR. TILLEY Q.—Have you sustained any losses on your real estate investments in Manitoba? A.—None whatever.

Q.—In Ontario? A.—We met with one small loss here in Ontario, in fact the first one in our history.

Q.—Of how much? A.—$184, and I may say that was not the result of insufficient security, it was the case of adverse possession.

Q.—There was no transaction. I suppose, agreement drawn up for the directors to sign in connection with such a loss as that? A.—It was hardly necessary.

Q.—Tell me how you put your loan transactions through in the Northwest? A.—We have an Inspector resident in Winnipeg who either in person or by one of his Inpectors personally inspects all properties in respect of which we receive applications for loans, he sends report to us, or the report of his inspector supported by his own recommendation from his personal knowledge of the Province, and we act on that report.

Q.—How is he paid? A.—We pay him a percentage on what we receive from our business in Manitoba. There is a base rate of a certain percentage

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

and we give him half the difference between that base rate and the rate the mortgage yields, and he is paid that only as we receive the return from the mortgage.

Q.—How long has that arrangement been in existence? A.—About 6 years.

Q.—During that time there has been no loss? A.—No loss whatever.

Q.—I suppose it is fair to say as a usual thing a company gets higher rates of interests where they are loaning fairly well up to the full value of any security? A.—I think that would be a general rule, there are exceptions of course.

Q.—A great deal depends on particular circumstances, but that is the rule that might be said to be general; starting with that idea do you think there is some inducement in that arrangement to your representative in Winnipeg to put you into loans where you are loaning pretty high on the property? A.—It might be.

Q.—And if there is a depression in the North West, as I think there was some time ago—— A.—Yes.

Q.—You might lose some money there? A.—The tendency of the agreement might be thought to be a little in that direction, although there are countervailing influences which I think tend in the other direction.

MR. LANGMUIR: I suppose you loan on Winnipeg property? A.—Some.

MR. TILLEY: Mr. Jeffery says you do from the Head Office here in London take means by sending representative or going yourself probably to Winnpeg and seeing these properties and through the West? A.—You would probably get the idea more clearly if I told you what we did in advance; as a preliminary to loaning there one of the Loan Committee, Mr. Emery and myself went out to Manitoba and we personally went over the field where we then intended loaning in and made ourselves acquainted with the condition of the country and the locality generally speaking so that we have a personal knowledge of the district in which we are loaning, and when that field was extended we went a second time, and eventually I went a third time to look over a further field, and in that way we are in touch with the whole country, we know something of it, and when an application comes in we are able to say we know the locality and know something about it.

Q.—That is not enough to compensate any danger if there is any? A.—It would not apply in Ontario as much as in Manitoba; the land does vary in Manitoba as much as in Ontario. Then each year or every other year at least we send an Inspector who personally re-inspects every loan we have made, not re-inspects every loan each year, but every new loan and any loan that may be thought to be anything wrong with.

Q.—I suppose it is more on the effect and the type of work your agent is doing for you than on any particular transaction? A.—Yes.

Q.—You form your opinion whether the system you have adopted is working along on right lines? A.—We are able to assure ourselves that we are working on right lines, and I think it acts as an incentive for a man there to be kept on safe lines.

Q.—He knows you are coming? A.—Yes.

Q.—Notwithstanding all that do you think that that is the best sort of arrangement to make as to loaning money? A.—That is a matter of opinion, I would not like to say it was the best; we have found it to work satisfactorily and comparatively inexpensive.

Q.—It is putting a premium on getting high rates? A.—Not necessarily, because the representative we have in Manitoba also guarantees his inspection.

Q.—How do you mean? A.—He guarantees the correctness of his inspection, but does not guarantee the loan.

Q.—What is the distinction, does not the distinction do away with the value of his? A.—I think not, the distinction would be this; he guarantees that the report which he sends us, whether obtained through his paid inspector or by himself, the facts placed before us are accurate, we can rely upon it that everything is as he represents it.

Q.—That would apply without guarantee, if he actually mislead you you would be able to realize against him? A.—We have an actual guarantee.

Q.—That would not be a very great protection against being misled by his opinion; I suppose you must act to a great extent on his opinion and recommendation? A.—To a large extent, but we have a very general personal knowledge of what we are doing there.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—If you were left to that arrangement without the check that you exercise on him, you would not consider that a very proper arrangement, would you—without the check you make of going out there and actually going over the properties? A. —I think it would be desirable to have the check. We have great faith in our agents. I can explain too that the difference between these rates of interest is a graded one, it is not a flat difference, he does not get for instance, that is half the difference between five and six, and six and a half and seven, he would get a little more if the interest was higher, but not the whole difference. The element is not sufficient we think to induce a man to do wrong, but there is just a little in it to make it his object to make him work to get us better loans.

MR. LANGMUIR: Q.—Who examines the title? A.—Tupper, Phippen & Tupper of Winnipeg.

Q.—Do you authorize the agent to put it in your solicitor's hands there before passing the report here? A.—It comes here first, the application must come to the home office.

Q.—Do you find them patient enough to wait for that? A.—We find it so. What we do is this, as the application reaches us here we pass upon it, if we find it satisfactory we send a telegram if it is urgent, and we follow that up with a letter to the solicitor. If there is any material variation from the application the telegram states the variation.

Q.—You have not an Advisory Board in Winnipeg? A.—No.

MR. TILLEY: Q.—Do you allow your agents who passes on your loans to write insurance on the borrower? A.—No sir.

Q.—Have you any policies written on borrowers connected with the mortgage loan? A.—We have a few such.

Q.—Out in the West? A.—We may have a few in the West, none that the loan depended on the insurance, that is that the loan was made a condition of the insurance. We have a few cases in Ontario where life interests are at stake and things of that kind, and insurance is necessary, but we do not make a feature of combining the insurance with the loan; we think one or the other is bound to suffer.

Q.—The reason for it is that the personal interest of the agent is sometimes different from his interest as an officer acting for the company? A.—I think it would tend to warp his judgment.

Q.—It is a little more exaggerated, and that is all that can be said of it, than your system? A.—Considerably more so, there is a difference of interest.

MR. LANGMUIR: It is more exaggerated? A.—Very much so.

Q.—In the applications you have received from the West who has got the commission on those policies? A. —In connection with loans?

Q.—Yes? A.—I have not any actual case in hind, but it would go I think to one of our agents there in the ordinary course of business.

Q.—Not to the man you put your loan through? A.—No.

Q.—He has never written any insurance for you at all? A.—He gets no remuneration from the company along that line in any form.

DR. JEFFERY: It is only by accident if there are any? A.—It would be more of a co-incidence.

MR. TILLEY: You have never had any mortgage loans on real estate to any of your officers? A.—Not that I am aware of.

Q.—You have never had any losses except the one you mentioned? A.—That is all.

Q.—I notice in one case you had an item that was transferred from mortgage to real estate, what was the meaning of that transaction? A. —That was the case of a property that fell into our hands as mortgagees by deed from the mortgagor, and was subsequently sold under agreement of sale, and we are dealing with it as real estate held under agreement of sale.

Q.—The title remains in you until the purchase money or a certain part of it is paid under an agreement you have executed? A.—Yes.

Q.—And you are carrying it still as real estate? A.—The balance is on real estate sold—I may say I think it was about something over $6000 originally, and it is down to between three and four thousand dollars now.

Q.—There will be no loss on that? A.—No, and there was not in any shape or form.

Q.—Have you had any losses on any other investments? A.—We have had no actual losses on investments

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

of any other character that I know of excepting that we may have written down some of our stocks at different times, and there may have been appreciation and depreciation by reason of change in values. Those of course are fluctuation losses, but not actually ascertained losses.

Q.—Where you have fluctuation in the value of any of your securities do you carry it in as a ledger asset as other assets in your annual return? A.—Our rule has always been to write all our assets down below their actual value; we do not always write them up, very seldom write them up, always write them down if there is any occasion to do so.

Q.—And you show that decrease in market values? A.—Yes, and the amount written off as depreciation.

Q.—Do you write it off in the account? A.—Yes, and charge it up to profit and loss account.

Q.—Have you ever had any foreclosures? A.—I do not think we have had foreclosures in the strict application of that term, we have had mortgage sales.

Q.—And resulting in loss? A.—We have never made the loss of a dollar in a case like that.

Q.—Is that your property where your office is? A.—Yes.

Q.—The company is the owner? A. Yes, in fee simple.

Q.—That is carried at what amount? A.—$10,000 in our statement last year; we have since spent about $5,000 more in completing it, which for the time being has been added; just what we will put it in at the end of the year I do not know, but it won't be more than $15,000 and may be less.

Q.—Have you written off anything in respect of the head office building? A.—We wrote off for alterations last year five or six thousand dollars.

Q.—What did you carry the alterations to? A.—It would go there eventually but we showed it as amount expended for alterations in head office building and charged up to expense.

Q.—Have you applied profit of any securities towards reducing the value of your head office? A.—I think there was a small amount applied that way last year, because we sold a block of stock at a profit, some Canadian Savings & Loan Company stock.

Q.—The profits you received on that— A.—Went towards the alterations in the head office building, and the balance of the alterations was shown in our statement as alterations.

Q.—What you realized on the stock and applied on head office was not shown in the statement? A.—I do not think it was shown in the head office of securities written off, it was shown as money paid out for alterations in expense account.

Q.—Was it shown as profit on securities? A.—It was in our Government return.

MR. REID: It was shown in the President's address? A.—In our Government return it was shown as profit resulting from the sale of securities, and the full measure—

MR. TILLEY: Q.—Has there ever been any sort of manipulation of securities in your company? A.—Never.

Q.—Any taking out of securities at the end of the year and putting them in again at the beginning of the next year? A.—For improper purposes or anything like that?

Q.—Just to give them a rest? A.—There never was anything of that kind.

Q.—Have you ever done it regardless of purpose, taking it out at the end of the year and putting it in at the beginning of the year? A.—There may have been securities for instance that were dealt in at the end of the year and may have been disposed of the next year.

Q.—Bought at the end of one year and disposed of at the beginning of next? A.—There might be something of that kind.

Q.—Have you ever sold them at the end of the year and bought them at the beginning of next? A.—No.

Q.—What transactions are you referring to when you say bought them at the end of the year and sold them the beginning of the next? A.—I think of one case we bought a block of debentures at the end of the year and we sold them early in the following year, possibly immediately.

Q.—Why? A.—It may have been for two reasons, I cannot tell you which was the correct one.

Q.—If you give us both we will choose the worst? A.—My recollection of the transaction is a person from whom we bought debentures at the end of the year needed some money—

Q.—Practically a loan? A.—We bought the debentures, but it was understood if he did not need the money

he would sell them back or give them back. I think he did not need the money and they went back.

Q.—Was that any person connected with the company? A.—Only indirectly, I think the transaction was one with the Ontario Loan & Debenture Company; I am only speaking from memory as to that, I cannot say.

Q.—Do you want the ledger? A. —I do not think it would show it; it is a good many years ago.

Q.—How many years ago? A.—It must be ten years ago; it may be even further back than that, it may be 15 years, I could not say.

MR. LANGMUIR: There was no intention to cover up any transaction by that? A.—None whatever.

MR. TILLEY: If it was a purchase of securities in order to give financial assistance to some person in any way connected with the company I think we ought to know? A.—Except we held some stock in the Ontario Loan & Debenture Company at that time.

Q.—How much did you hold? A.—We held $60,000 of stock I think.

Q.—Are any of your directors or any large shareholders interested in any company whose stock you hold? A.—I think there are several of our directors that are directors of other companies.

Q.—What companies are you referring to, is this one you have mentioned now? A.—Yes, and the Agricultural is another, and there are directors of our company in both those, and there may be other companies. I hardly know what companies our directors are interested in.

Q.—These are local London companies? A.—Yes, and the stocks in these companies were bought years before in connection with the company.

Q.—Do you still hold them? A.—Yes, most of them. We sold a small block last year, and that four hundred block some years ago I told you of.

Q.—You still hold substantially all your holdings in those? A.—Yes.

Q.—Here it says 1,000 shares Ontario Loan & Debenture Company? A.—Yes.

Q.—And then another thousand shares, 20 per cent. paid, in the same company? A.—Yes.

Q.—That is to say the part of these stocks you hold, $60,000, the market value $76,000, ledger value $71,200; what directors of your company are directors of the Ontario Loan & Debenture Company? A.—At present I think there are four.

Q.—Who are they? A.—Mr. McClary who is President of both companies, and Mr. Bullen is the Manager of the Ontario Loan & Debenture Company, and he is a director of our company; A. S. Emery.

Q.—He is a director in both companies? A.—Yes, William Bowman.

Q.—He is a director of both companies? A.—Yes. That is all that applies to that company.

Q.—That is a London company? A.—Yes.

Q.—Do these parties hold large shareholdings in those companies? A. —I am unable to say what their holding is, I would think Mr. McClary would be a shareholder largely interested; I think Mr. Emery also.

Q.—Would they between them have a control? A.—I would not think so.

Q.—Along with this stock of yours? A.—I would not think they would have even along with our stock. Their capital is $1,200,000 and it would take considerable money to control that. Besides that they have no proxy or right to vote by proxy from the Board of Directors for that stock is to myself rather than to the persons I referred to.

Q.—Is Mr. Jeffery on that Ontario Loan & Debenture Company? A.—He is not a director, I suppose he is a stockholder.

Q.—A substantial stockholder?

MR. JEFFERY: Reasonably so.

MR. TILLEY: Could it be said that the directors and yourself and this company, the London Life, are the controlling factors in the Ontario Loan & Debenture Company?

DR. JEFFERY: They are not necessarily a controlling factor, they do not control the majority of the stock; they would control I would imagine one-quarter to one-third, but I do not know that we are so associated together that they would go together.

MR. TILLEY: Is the balance of the stock entirely scattered?

DR. JEFFERY: Yes, but there are a good many large groups.

MR. TILLEY: Q.—Take the 52 shares of Agricultural? A.—One of our policyholders' directors is a director of that company, Mr. Smallman.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

DR. JEFFERY: He was not a director when it was purchased? A.—All these stocks have been owned more than 25 years.

MR. TILLEY: Paying dividends? A.—They were all owned previous to our Dominion corporation, because since then we have no authority to buy them.

Q.—What about Huron & Erie Loan & Savings Company? A.—We have a small holding in that, it is the same age.

Q.—What is this one? A.—This stock we sold some years ago, and is a small balance we have over.

DR. JEFFERY: What is Ontario stock there at?

WITNESS: I think we have it in our statement at 120.

DR. JEFFERY: It is standing now ten per cent. higher.

WITNESS: Fully that; you could not buy it at that. I wanted to get some the other day and I could not get any at two or three points beyond that.

MR. TILLEY: Your paid-up capital has been only $50,000, and you have told us of what bonuses that have been paid in to the company? A.—Yes.

Q.—And you have described in a general way about your impairment? A.—Yes.

Q.—I suppose that it is not a very serious thing, it should not be regarded as a serious thing with the public, that at certain times in the early history of a company its capital is almost bound to be impaired? A.—Yes, almost certain.

Q.—It is only impaired by reason of the Government requirements compelling the company to treat as a liability the reserve on the policies? A.—In almost any other line of business I think it would be put in as plant or stock in trade, but in life insurance we spend a lot of it in establishing ourselves, and they do not allow us to take any credit for it.

Q.—The thing to consider is what is the cost of establishing the company, the cost of carrying on the business, not whether it is impairment or whether it comes out of business or premium? A.—I think that would be the intelligent way of considering it.

Q.—But your company, I suppose, in common with all others, are very sensitive of having this impairment of capital? A.—Perhaps that does not quite fully express the thought.

Q.—I suppose it brings it nearer to trouble, because the Government Inspector might make trouble? A. At that time we were changing from a stock company to a mixed mutual, and it was thought desirable that the old transaction should be cleaned up; they were going to put themselves on their feet, and we would start out afresh; we recognized that until that capital was made good we could not treat any profit, it would have to go towards making good the capital, that is legally, and the only thing was to make that impairment good or do an injustice to the participating policyholder.

MR. KENT: You were having a house-cleaning? A.—Yes.

Q.—This was another time, if there is any sin not touched upon now is the time to make open confession? A.—I have no doubt it would do us all good if there is anything of that kind. So far as I know we have nothing to hide.

—Adjourned at 1 to 2 p.m.

—Resumed at 2 p.m., June 28th, 1906.

MR. TILLEY: Q.—You have furnished us with a copy of the Re-assurance Agreement, and I understand it to be the settled form used by companies members of the Life Officers' Association? A.—Yes.

Q.—This gives the standard provisions, and then any particular companies might add to it any other special provisions they desire to adopt themselves? A.—Exactly so.

—Form of Re-assurance filed as Exhibit 299.

—Mr. Tilley reads Exhibit 299.

Q.—Referring to Clause 5, what is it causes that clause to become applicable? A.—As to extra premium?

Q.—When does a company impose an extra premium after the policy has been issued, that is what that clause seems to contemplate does it not? A.—It may do so, it might be a case where the conditions of the policy prohibit the man from engaging in certain occupations.

Q.—Where he enters into some more hazardous occupation— A.—That was contemplated when the policy was taken.

Q.—Or goes to a different climate? A.—Or engages in military service.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—If the principal company permits that and takes a higher premium for it I understand by this a guaranteeing company is bound? A.—Yes; they cannot refuse to follow, but they are entitled to the higher premium.

Q.—But they must follow? A.—Yes.

Q.—Are companies bound under the rules of the Life Officers' Association by that agreement unless they specially stipulate they so agree to it? A.—No.

Q.—Is there no rule or general regulation of the Life Officers' Association that this agreement is binding on all parties? A.—None whatever.

Q.—You take that as a sort of standard form for agreements? A.—Yes.

Q.—That is the object of it; there is nothing said there at all about the rates of premium, is that a matter for private agreement on each insurance that is submitted? A.—Entirely, may be on the same plan and if so the same rate, and it may be on another plan, and then the applicable rate.

Q.—Supposing the principal company has a whole life policy does it sometimes re-assure on some other plan? A.—Sometimes.

Q.—That is they might probably re-insure the man on an endowment plan, might they ? A.—That would not be very likely, it would be more likely to be for term insurance.

Q.—So that if death occurs within the number of years for which the premium is paid, then the re-insuring company, the guaranteeing company, must pay? A.—Yes.

Q.—Tell me in general what the practice is as between companies as to their premium rates, where there is reassurance, supposing you re-assure on the same plan what rate of premium does the guaranteeing company receive from the principal company, the same premium as the principal company receives from the assured? A.—Usually, though that is not absolutely the case at all times. It may be varied.

Q.—If that is the usual practice, tell me what motives might prompt companies to alter that in a particular case? A.—The company having a whole life policy for instance of $10,000, they may at their then experience prefer to re-insure for $5,000 or $3,000, or perhaps any sum, they may not want to carry more than $5,000, or $6,000, or $7,000, they may expect that in ten years' time they will be able to carry the whole thing; in that particular case they would re-insure for a term of years.

Q.—That is a different plan, supposing they take the same plan precisely, then they go to the guaranteeing company and they say, "We have an assurance on John Smith for $20,000; our premium is so and so"; do the companies ever change the rate between themselves, alter it from the rate the principal company has charged the insured? A.—I would not think that would be customary.

Q.—I suppose that would hardly ever occur where the principal company was charging a Life Officers' table? A.—There would be no occasion for it in that case.

Q.—What is done about agents' commissions in such a case? A.—Of course the principal company deals with its agent, and the re-assuring company would pay to the principal company its share of the commission.

Q.—When the policy is submitted, supposing you are the guaranteeing company, are you informed as to the commission the principal company has paid? A.—We may or may not; if we are not informed they will say what commission they will allow on that business, and we can accept it or decline it as we think fit.

Q.—If there is any variation I suppose the guaranteeing company would probably pay less commission than the principal company did? A.—I would judge as a rule.

Q.—If there is any difference between the commissions it would be likely that the principal company would not get back its fair share of the expense it had paid on that policy there would not be much chance of getting more? A.—I should think as a rule they would not get more.

Q.—There are cases where they do get more? A.—There may be cases.

Q.—It is just a private bargain? A.—Yes.

Q.—Tell me what standard the companies regard as being proper for commission, on ordinary life policies for instance what percentage do you say? A.—That would depend entirely whether it was brokerage or whether it was a renewal contract, or part salary and part commission; there are so many kinds of contracts, these different contracts would vary the commission.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—Do you think they fairly, as between themselves, deal with the business on the basis of actual commissions paid? A.—I think so, I think they do that fairly. Of course we cannot tell in many cases because we do not know; they may pay salary or part salary and commission, and so on. Still the guaranteeing company would expect to pay for that business what they would pay for it if they were getting it through other channels.

Q.—I notice the clause in the agreement is you shall arbitrate any differences, has the Life Officers' Association acted under that clause on any occasions that you know of; I am not saying now the London Life particularly? A.—I have no knowledge of a single case although it may have happened.

Q.—You have also produced the Agreement between the Metropolitan Life and the London Life which I shall put in, but I would be very glad if you would prefer to keep the original, to put in a copy? A.—We would prefer to keep the original.

—Copy of Agreement between Metropolitan Life and the London Life to be filed as Exhibit 300.

(Reads Exhibit 300.)

Q.—Do you think that first clause is fair to the agents? A.—Limitation of service?

Q.—The limitation that if a man has been employed by either the Metropolitan or the London, that for a year after he cannot be employed by the other company in the same place where he has been carrying on business before? A.—Yes, I think it is necessary in the industrial business.

Q.—I gather from that that you regard industrial business in that respect to be on a different footing from ordinary business? A.—It is somewhat different, the association between the agent and the business is much closer than it is in ordinary business.

Q.—Explain more clearly? A.—The agent is so familiar with the people he collects from week to week that in many cases if we were to employ a man in the same district in which he had worked for another company, a lot of that business would follow the agent, and then there would be a disposition on the part of the agent to take that business out, to tamper with it and carry it away to the other company, and be paid for it a second time; in short the man could stay with one company as long as it paid him, and then go to another company and get paid again by the other company for that business.

Q.—That result is brought about by the fact to a great extent, that he meets these people from week to week? A.—Yes.

Q.—I understand premiums are collected by calling at the house and getting five or ten cents every week? A.—Yes.

Q.—You say that that man builds up an asset which he can withdraw from one company to another as it serves him? A.—Yes.

Q.—And this Agreement in reality is to destroy this asset? A.—We do not view it in that way.

Q.—That is the effect of it, is it not? A.—No.

Q.—That is the good-will of his business? A.—We view it in the opposite light, we say it is our asset, and we do not wish him to destroy it from our standpoint.

Q.—It is not the joint asset of you two companies is it? A.—I think so, we have paid for it.

Q.—The Metropolitan has not paid for the asset that your agent has? A.—No, but we have paid for it.

Q.—You have not paid for the asset the Metropolitan agent has? A.—But they have.

Q.—You two companies combine together to destroy the asset this agent has as his good-will, in other words the good-will of his business which he has at his back to try and get as good terms as he can to make his livelihood? A.—I think that is provided for in the Agreement in which the agent agrees he will not tamper with the business of the company after leaving its employ.

Q.—That is the agreement you make with your agnts? A.—Mr. Reid can tell you.

MR. REID: I think it is in the agreement; I will find it.

MR. TILLEY: Q.—You say if that could be regarded as unfair in the abstract, you contend it is not unfair in the concrete case because the man himself has agreed to that effect with you? A.—That is his contract with us.

Q.—He has entered into an arrangement with you whereby that asset is to be yours and not his? A.—Yes.

Q.—And the mere fact that he has the opportunity to take it away does

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

not give him the right to do it? A.—That is our contention.

DR. JEFFERY: He is paid for his time, the increase of the debit, and for collecting.

MR. TILLEY: The second paragraph reads (reads). A.—I might make a further explanation; I might say previous to that agreement being entered into where we used to employ agents of this company in the same district we were continually in trouble, and writing one another; unfairness was charged and it gave us a great deal of trouble.

Q.—Was it not a charge of unfairness as between one company and the other? A.—That was it.

Q.—The Metropolitan would say to the London Life, "You got after our agent in Peterboro, and you have got him away from us," and you charging the Metropolitan the same thing in some other place? A.—It was not that so much as it was the complaint in the districts themselves, agents digging out each other's business and causing trouble between superintendents of the two companies; in short instead of working in comparative harmony, they were at daggers' points nearly the whole time, caused by this method of conducting the business.

Q.—If the companies were bona fide intending to live up to the agreement would not the first part of clause 1 cover the whole thing, "That they will not negotiate or offer any inducements to any person," etc. (reads)? A.—That would not cover a case of that kind; a man might leave the company voluntarily and come over to us.

Q.—Do you think it is right that a man who is not in your employment, who will not accept the terms you are ready and willing to pay, must be cut off from this business? A.—Not necessarily—

MR. TILLEY: Q.—Mr. Reid says he cannot find the clause as to the agent's obligations? A.—It is provided for somewhere.

MR. REID: It may be in the Ordinary Agreement.

WITNESS: Is it in the agents' instruction book?

MR. REID: Doubtless it is.

MR. TILLEY: Q.—While we are touching on that again, let me put in what I omitted to put in this morning, the form used for the Industrial Superintendents and the Assistant Superintendents—take the Superintendents' agreement form? A.—That is practically an Assistant Superintendent's agreement form slightly altered, the same printed form.

—Forms of Superintendent's agreements filed as Exhibit 301.

Q.—These Superintendents are not paid just on the same basis as the agents? A.—Not exactly.

Q.—They have a salary? A.—The salary is their main remuneration.

Q.—And then they have an interest every quarter in the net debits? A.—Any increase in the debits.

Q.—The same as an agent? A.—Yes, not so large a percentage.

Q.—Because they would get the percentage on the whole increase in their districts? A.—Yes.

Q.—The agreement with the Superintendent and Assistant Superintendents progress from year to year so that they are to some extent anchored with the company? A.—They do.

Q.—Their interest is in remaining with the company? A.—Yes.

(Reads second clause of Exhibit No. 300.)

Q.—What was the condition of affairs that required that contract to be entered into between you that you will disclose one to the other all the information you have regarding an agent that has been in your employ? A.—The object is to avoid getting in our employ dishonest men, men who have conducted themselves improperly with the other company. If they have not been honest there we do not want them.

Q.—It is a sort of middle agency between the two of you? A.—In that respect, and affords us reasonable information along that line to protect ourselves.

Q.—Section 3 is (reads). Does that mean that you found that the agents were doing considerable adverse talking about the opposition company? A.—No doubt there was a good deal of that previous to that agreement being entered into.

Q.—Did this clause stop it? A.—In a large measure it did.

Q.—How could you enforce that, supposing your agent in Peterboro goes around talking about the Metropolitan and saying all manner of things about it, then a complaint comes to you? A.—I think it is provided for in the Agreement that the complaint is to be made to the Superintendent first, and failing a proper

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

adjustment of the matter then it comes to the Head Office.

Q.—The Agreement does not seem to provide what the company shall do in case a complaint is made and the Superintendent does right it, is there any understanding about that, that the agent shall be discharged? A.—Nothing more than what would be ordinarily expected in a company in a case like that living up to the Agreement; if your agents do not do it see that they do.

Q.—One gets some insight into how rebating is carried on when you get the Agreement between the companies themselves. Apparently it is a practice that is known to allow credit for premiums not actually paid by the applicant for insurance? A.—I may say that arose more largely in connection with transfers of business from one company to another. In industrial insurance an agent might go to a policyholder in the other company and say, "I will allow you what you have paid in the other company." And that is to prevent that There are many peculiarities about industrial business that at first sight might seem strange, but in the practical working out of it these things are intended to correct them.

Q.—There are special features in connection with the industrial business? A.—Yes, and they have to be dealt with specially.

Q.—In industrial business there is this stipulation: "In the event of the death of the insured within six months of the date of the policy only one-third, after six months and under nine months one-half, after nine and under twelve months three-quarters of these amounts will be paid." That is to say, the policy is for a certain amount, then within a certain space one percentage, within a longer space a little larger percentage, until you get up to the full amount paid under the policy? A.—Yes.

Q.—The reason for that being what? A.—To prevent the company getting loaded up with a lot of bad risks that might be near death.

Q.—Where the cases would be rushed in anticipating that death would occur? A.—Yes.

Q.—Should death occur with consumption in the first year after the issue of the policy but one-half the amount which would otherwise be paid will be payable; why is that specially made about one disease; I notice it in your Minutes? A.—It is one of the diseases that it is very difficult for the agent who is inspecting the business to determine whether the applicant is suffering from consumption, and it is a disease in respect of which there are a good many deaths, and it was to guard against being unduly loaded up with cases of that kind.

Q.—Attached to the Agreement is a letter from the Secretary of the Metropolitan Life of October 24th, 1895 (reads letter Exhibit 300). A.—I may say in that connection, the Metropolitan had prepared the form of Agreement for us to sign which covered over two or three years, and we were not satisfied with that, and they said, "You prepare an Agreement," and that is the result.

Q.—And you got it down to one year? A.—Yes, we thought that was long enough.

Q.—The premiums in the ordinary branch of your business were based on the Hm. table with interest at 4½? A.—Of the with profit business; the old original non-participating business I think was based on the United Experience 4½; I am not positive as to that.

Q.—In 1898 and 1899 the interest was changed to 4 per cent., since 1900 the interest has been as the Act requires, 3½ per cent.? A.—Yes.

Q.—The industrial branch the basis of the rates up to 1st January, 1900, was combined experience table, interest at 4 per cent.; how does the combined experience table compare with the Hm. table? A.—The premium would be a trifle lower, and at the same rate of interest, no very great variation.

Q.—Since that date the basis has been Farr's English table No. 3 with interest at 3 per cent.? A.—Yes.

Q.—How does Farr's English table compare with Combined Experience? A.—I think it provides for a little heavier death rate particularly at the earlier ages.

Q.—Getting more? A.—Nearer the death rate of the population.

Q.—Is Farr's English Table high enough, the death rate? A.—I think so, we think it is high enough for our experience in Canada. I may say we have always based the rates at ½ per cent. higher rate of interest as a better margin of safety.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—Is your extra premium considered entirely with regard to loading in respect to industrial policies? A.—Except it is on ½ per cent. lower rate of interest.

Q.—That is a higher standard bringing a higher reserve? A.—Yes.

Q.—How does the loading ordinarily compare with the net premium for ordinary insurance? A.—From 20 to 30 per cent. on the 3½ rates.

Q.—How would loading on the industrial net premium be in order to get the gross premium for industrial business? A.—50 per cent. higher at least.

Q.—What do you mean? A.—One-half higher.

Q.—Is not the loading 75 to 100 per cent. of the net premium? A.—That would be of the net premium; in the other case that is 20 to 30 per cent. of the premium would be loading; of course 100 on the net would not be 100 per cent. off the gross.

Q.—The way in which you have loaded the whole life and endowment policies I will put in as an exhibit (filed as exhibit 302.) I notice you have some monthly insurance? A.—Yes.

Q.—Which is the medium between weekly and ordinary insurance? A.—It is industrial insurance, but it is intended to be operative in places where an agent could not conveniently collect weekly.

Q.—Have you done much business of that kind? A.—Not a great deal.

Q.—I suppose there are no features which distinguish it from the ordinary business? A.—It is about of the same general character.

Q.—The rates are a little more favorable, being less expensive to write up and collect? A.—We pay less percentage to collect it, because we have to collect it less frequently, and we can therefore do a little better for the people.

Q.—In speaking of the expense of obtaining and retaining insurance you referred to the fact that the bulk of the business is written under contracts on a thoroughly commission basis, I suppose that is so? A.—Yes.

Q.—Some, however, is on salary? A.—Yes.

Q.—As to the commission basis there is a good deal of money advanced is there not by way of advances to agents? A.—Quite a bit.

Q.—Do you carry that forward in your books as an asset? A.—No, we charge it up to commissions as it goes out.

Q.—Is that the proper way to treat it? A.—We think so.

Q.—Is it the common way? A.—Yes, I think with companies that do not have some particular object of treating it some other way.

Q.—You have added a rider to that because there seem to be several treating it differently? A.—They perhaps have some special reasons for treating it differently.

Q.—You say that while it may be regarded and treated as something else, it is in reality money that is paid out by way of expense to agents to get business, and you do not get it back? A.—No.

Q.—It is a rare thing to get it back? A.—It is not intended to be paid back, it is a guarantee, we say to our men "You give your time and we will give you so much."

Q.—It is for that reason we find no item in your books of agents' advances? A.—Never had anything of the kind.

Q.—It will just show your expenses that much higher? A.—Probably, for the time being.

Q.—It must come in sometime? A.—Yes, if it is honestly dealt with.

Q.—In the case of surrender values you do not of course allow the full reserve? A.—No, sir.

Q.—Why should not the full reserve be given to the shareholder? A.—I think there are many reasons, there are two parties to the contract, the company must carry the risk in consideration of the applicant paying a certain premium. The contract is that the applicant will do certain things for a certain length of time; we have to do certain things for him. If one of the parties does certain things it breaks the contract, and one party may have gone to considerable expense in getting that business.

Q.—That is one reason; get back to the company; the excess money that is paid out in the initial year of the policy to get it? A.—Yes.

Q.—And if you would give the full surrender, that excess cost, dealing fairly, must come out of the policy some time, must be returned to the company? A.—It would come out of the profits of the policyholders, who stay and carry out their policies, and that would not be fair to them all. Another element is in the cutting off of business from the books of the company there is apt to be a selection against the company.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—That is to say it is the good lives that surrender more than the bad lives? A.—The chances would be that would be the case.

Q.—Any person who thinks that his policy may become a claim reasonably soon is not so apt to surrender it as some person who feels he is in pretty good health? A.—Yes, I think that would be the common sense view to take.

Q.—So that there is a selection against the company, and therefore when a man comes to you and says "I want the surrender value," then having regard to the average you have struck you should take something from him to make up for the man who is staying on by reason of being a poor life? A.—I think that is amply evidenced that is the case by the experience of those English companies who did business in this country prior to the passing of the Insurance Act. Several companies withdrew at that time. The death rate of those companies has been enormously heavy in the business that remained. The death rate was very much heavier than would ordinarily be the case.

Q.—Then there is the other element, of course, there is the loss of the profit on the business that the insurance company is fairly entitled to? A.—Which it would naturally expect to make after spending a lot of money.

Q.—Because he changes his mind you do not expect to let him out without giving you some of the profit you had stipulated for? A.—We should have at least enough to replace that business.

Q.—Enough to get other insurance on in lieu of it? A.—A little of something to the good.

Q.—You have to give the man a certain percentage, I won't attempt to say what you have indicated as to percentage for the man to get, I could not work it out? A.—I think we have put in an exhibit how it does work out.

Q.—And I think I had beter put in the document as you have handed it to me rather than attempt to construe it? A.—If you would take the trouble to go through it you would find it is a fair arrangement.

Q.—I am not criticising it from that standpoint; it is an involved computation you have to make out? A.—Necessarily somewhat involved probably to the man who is not familiar with that kind of thing.

Q.—I would like to put it in; Mr. Richter has gone to a good deal of trouble with it and it may probably be useful in considering the matter (filed as exhibit 303)? A.—I may say in further explanation of that, if more light is wanted on that subject it has been dealt with several times by members of the British Institute of Actuaries, and very able papers written on the subject, and if those papers are wanted they can be produced.

Q.—Are there any excessive salaries in your company except your own? A.—Perhaps I am the worst of any in that line.

Q.—You think your company is carried on on reasonable and conservative lines with regard to salaries and remuneration? A.—I suppose we are hardly the best judges of that.

Q.—I do not know but what it is fair to say that. After you had the money in the company's exchequer to make good the impairment you commenced sometime afterwards to roll up a surplus, didn't you? A.—Yes.

Q.—Until it now amounts to what sum? A.—Some $60,000 in excess of our actual requirements.

Q.—How is that divided or is it divided at all, as between participating policyholders and the shareholders? A.—If it had to be divided it would be divided in the proportions of 95 per cent. to the policyholders and 5 per cent. to the shareholders, with certain limitations attached to the 5 per cent.

Q.—You commenced that by saying if it had to be divided, should it not be divided? A.—I think not, not in a going concern.

Q.—It should be left there as it is for a time? A.—That is only a reasonably safe margin I think for the carrying on of business to guard against possible future contingencies that may arise.

Q.—While you may keep money to the credit of policyholders as surplus and the other as shareholders, would it not be proper to divide it so that the Directors, being trustees for these participating shareholders, would have set apart that fund as being the policyholders'? A,—They know nearly the whole of that belongs to the policyholders if it had to be divided.

Q.—By what right does it belong to the policyholders, there is nothing in the Charter that makes it theirs?

SESSIONAL PAPER No. 66

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

A.—By By-laws and regulations.

Q.—Nothing in the Charter? A.—No, the Charter authorizes the By laws

Q.—You could change the By-laws at any time? A.—Not so as to be to the detriment of any existing policyholders.

Q.—Would not it be well to divide that fund so that you could not pass a By-law which would be to the detriment of participating policyholders? A.—I do not think so.

Q.—I mean as a matter of book-keeping—

MR. KENT: So that the shareholder could never look at it.

MR. TILLEY: What do you think of it? A.—Under our By-laws I do not think that would be proper.

Q.—Why? A.—In the first place until such times as it is actually apportionable, then of course it is not divisible.

Q.—It is not his? A.—It is not either party's.

Q.—One party has a good hand on it, would not it be well to just divide the responsibility of taking care of that fund? A.—I fail to see 5 per cent., what would be a matter of $3,000, that you can divide it up $57,000 to one and $3,000 to the other—the idea is not that it shall be divided; my idea is we should carry an undivided surplus, I estimate that it should be a sum when we can attain to it of not less than $10 a thousand of our ordinary business and $5 a thousand of our industrial as a reasonable margin of safety.

Q.—You aim at establishing that undivided fund? A.—Yes.

Q.—Before you feel the company is reasonably safe and sound? A.—Yes.

Q.—That is good insurance business? A.—I think so; because if we were to discontinue our business there is no doubt that the demands on the company would not be met by the ordinary income of the company.

Q.—There is nothing in that that I see to prevent you making the division you think fair and proper; still retaining the money? A.—Nothing to prevent us; we do not think it is necessary under our By-laws. If you will take the trouble to read them I do not think you will say there is anything that will call for a division of it. If it was ever dealt with in any way, shape or form it would have to be divided and have to be divided in the proportions I have mentioned.

Q.—You have handed in a statement showing the dividends paid out from organization to 1905. I notice in 1889 there is apparently a blank, no dividend paid to the shareholders? A.—That was the year a special assessment was levied, it would not seem very proper to pay a dividend and ask them to put up a special assessment.

Q.—Was not a dividend declared in that year which went to make up a loss on some security—what was the object for it? A.—If there was anything of that kind the Minutes would show it. It is barely possible it may have been mentioned in that way. If so it had reference to that sale of stock I referred to this morning.

Q.—I think probably that is it? A.—And it went in with the $4 a share of assessment and the two helped to make that—

Q.—On page 22 I will read that (reads on page 22 of Exhibit 294). Is that the dividend? A.—Yes, that is that particular dividend.

Q.—Later on in 1904 that was made good, was it not, by a resolution which created a dividend for that year of 1899, adding interest down to the time it was paid in 1894, and that was paid to the shareholders in dividends that year? A.—Not paid, credited.

Q.—Credited to their special fund? A.—Yes.

Q. Then in 1896 the By-laws and Minutes show that the shareholders were paid besides a dividend of 7 per cent. on their stock, they were paid a dividend of 6 per cent. on a fund of $12,500 that you had to the credit of shareholders? A.—That is right.

Q.—That $12,500 was really a quarter of the capital stock, that is to say, bore the relation of 25 per cent.? A.—It would bear that relation, although it had no connection with it.

Q.—That 6 per cent. would be like an additional 1½ per cent. on the capital stock? A.—Yes.

Q—So that that would make the dividend of the shareholders in actual receipts 8½, 7 and 1½ per cent.? A.—Just about that.

Q.—That ran from 1896 to 1899 inclusive? A.—Yes.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—Then from 1899 you paid 8 per cent.? A.—Yes, there is a special resolution there

Q.—What was the nature of that transaction that took place then? A.—That $4 a share assessment levied in 1899 was levied on the understanding that it could be made good to the shareholders out of the earnings of the company whenever the earnings would justify it. That was made good from time to time and by 1899 we had that money all safe at the credit of the shareholders again. At that time the Government changed the standard of reserve, and the Directors of the company very generously gave us the benefit of that $15,000 for the time being to apply to the credit of our reserve fund to increase the reserve on our old business from 4½ to 4, and then took 8 per cent. thereafter instead of 8½.

Q.—You kept the $15,000 there, is it there yet? A.—It has been transferred to the reserve account.

Q.—That $12,500 was part of a fund of $15,000? A.—Yes.

Q.—Why was the interest on the whole $15,000 allowed if there was that exact fund? A.—Because part of the $15,000 was made up out of their share of the profits that had been distributed in the meantime on which they were not entitled to any interest.

Q.—Then the $15,000 went into the General Reserve? A.—Yes.

Q—Is it in the $61,000? A.—No, that is over and above that—pardon me, of course if that $61,000 were to be distributed the provision is in the final winding up of the company that that $15,000 can be paid back to the shareholders, and of course it would come out of that $60,000 or probably out of a bigger sum that would be then at the credit.

Q.—Have you $61,000 surplus over and above that $15,000? A.—We have, because the $15,000 has gone to increase the reserve fund by $15,000 more than it would be.

Q.—That $15,000 has been credited to your reserve fund, getting ready for the raise you must make in your reserve under the Act? A.—Yes, it would enable us to put our business on a 4 per cent. basis at once.

Q.—And having done that, and put that into the reserve account, it still leaves you with $61,000 free? A.—Yes.

Q.—What else have you done towards getting ready for the strengthening of the Reserve under the Act? A.—We set aside from year to year a special reserve which, I think, if my memory serves me right, amounts to $18,000.

Q.—When did you commence building up that fund? A.—Since 1900.

Q.—By even or fairly even— A.—We just set aside from year to year what we could afford to set aside; if we had a good year we set aside more, and if we had an indifferent year not so much.

Q.—What did you do last year? A.—I think $5,000.

Q.—What do you anticipate you must have for the time when the Act comes into force? A.—My impression is about $35,000 will be necessary.

Q.—That is 1915? A.—I am figuring on 1910. We are already on a 4 per cent. basis up to 1910, and we expect to be on a 3½ per cent. basis, I think it would take about $35,000 over our ordinary reserve. That is subject to an actual calculation; I am only guessing at that.

Q.—You think the company will have no difficulty in getting that reserve? A.—I am not expecting any.

Q.—Do you intend, so far as you have any intention on the subject now to do so by setting aside something out of each year in the way you have indicated? A.—That is the intention.

Q.—You have not started it by taking the policies in certain years and putting them on a different basis of interest? A.—No, we are setting aside a special fund which takes the place of that.

Q.—What profit did your industrial business make last year? A.—I am not able to answer that offhand. Perhaps Mr. Reid can tell you.

MR. REID: Do you mean the net profit?

MR. TILLEY: Yes.

MR. REID: After distributing the gross surplus as it were, about $12,000.

MR. TILLEY: What was the net increase in the whole business?

WITNESS: I think about eight or nine hundred thousand dollars.

Q.—In the surplus? A.—About $11,000.

Q.—Would that indicate that the industrial business had supplied all the increase in surplus last year? A.—No, not necessarily so.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

MR. REID: That is the net increase of surplus after applying various amounts to different purposes.

MR. TILLEY: Q.—The $5,000 for reserve and so on, that special fund would come out of it?

MR. REID: Yes.

Q.—The basis of reserve, was it required to be changed with respect to industrial business as well a ordinary?

WITNESS: It applied to all business.

Q.—Was one of the complaints that was mentioned to you by reason of the complainer not understanding such matters as that? A.—The case you referred to this morning?

Q.—That was the nature of the grievance, by the fact that that individual, in common with a great many other members of the public, did not or do not understand the reserve requirements, that is fair, is it? A.—I think that is fair.

Q.—That would account for some of the complaints you get? A.—Yes.

Q.—Do you pay a bonus to agents in addition to their regular commissions and travelling expenses? A.—I think there are in some cases small bonuses.

Q.—Do you approve of it? A—In a general way I do not; it is capable of abuse.

Q.—I suppose you find that certain conditions require exceptional treatment sometimes? A.—Competition makes us do lots of things we would not do probably if it was not for the competition.

Q.—The companies have all been permitting themselves to be led in this matter of competition lately? A.—Perhaps I ought not to be expected to say as to all companies doing that, but I think the tendency has been in that direction.

Q.—You seem to have a substantial item of expense account in the nature of travelling expenses, is that due to the industrial business, does that make it more expensive than the ordinary business would be? A.—Have you reference to the item of travelling expenses or to the item of expense account?

Q.—Travelling expenses? A.—That would be due partly to the industrial, but mainly to the ordinary, the travelling expenses of ordinary agents, superintendent and so on.

Q.—Which you pay? A.—Which we have to pay.

Q.—And accounted to you specially by the agent? A.—They send us a memorandum each month in a specially prepared voucher for the purpose showing the items from day to day.

Q.—Have you provisions in your policy for automatic non-forfeiture? A.—I don't think so, not in our old policies at any rate, and I am not so sure that our most recent contract does not provide for something of that kind, or partial.

Q.—The policy I have does not contain that provision, although there is provision as to getting paid-up insurance within three months? A.—They all guarantee paid-up insurance, but there must be an application.

Q.—Do you think that is a proper provision? A.—Yes.

Q.—Why do you think the policy-holder's right to paid-up insurance should depend on his applying for it? A.—There are various reasons why he ought to do that I think; in the first place I think it keeps us in touch with him for one thing, and another thing, I think it saves people from falling into probably a loose habit in connection with their insurance.

Q.—You mean a sort of educating clause? A.—Partially educating, partly beneficial, and partly in their interests.

Q.—It is not in the interest of the ones who forget to apply? A.—In those cases we remind them.

Q.—Do you remind them they can get paid up insurance? A.—We do in every case where we can find the man.

Q.—How do you remind him of it? A.—By letter.

Q.—By circular letter? A.—No, expressly written, telling him what he is entitled to do and urging him what to do.

Q.—Have you any printed circular asking him to pay the premium? A.—That would be previous to this other letter.

Q.—You have nothing to follow it up with, circular No. 2, "Now, you have some paid up insurance?" A.—There are, I think, circulars of that kind in use by the agents, and then after the agent fails to collect it it gets into the company's hands and it is followed up by special letters.

Q.—You have benefitted by the failure of the insured persons to apply? A.—Very slightly, indeed, in fact any benefit we have made in that way we

would prefer not to make it, we would prefer to give a paid up policy in every case where it was due.

Q.—Why? A.—Because we think he ought to have it.

Q.—Why not send it to him any way? A.—Because certain preliminaries have to be complied with; we do not know where to send it; he gets it in every case where we know. I do not know of a single case where a man has not received a paid up policy where we can find the man, and there are some cases where we have not been able to find the man and we have carried the reserve for it so that if he applied for it the next year he could get it.

Q.—Do you say the difference in your premiums as to the period between 1874 to 1883 and the present time indicates higher expense that the company is being put to to get business? A.—The business from 1874 to 1883 was purely non-participating.

Q.—You made rates for that period of non-participating? A.—Yes.

Q.—And then there would be the different rate of interest for the reserve? A.—Yes.

Q.—What is a high rate paid by Canadian companies for agents' commissions? A.—I think the general average of commissions now would be from 50 to 75 per cent., with reasonable renewal interest.

Q.—What is a reasonable renewal interest? A.—5 per cent.

Q.—Continuing how long? A.—During the continuance of the agency.

Q.—How can an agency be terminated? A.—Any time at a month's notice.

Q.—Have you any knowledge of a common practice that agents who have interests in renewals and whose contracts are terminated in that way are allowed something by way of compensation when leaving? A.—I do not think that could be called a very common practice.

Q.—Has your company adopted it? A.—No.

Q.—Do you know of many companies in Canada that have? A.—I do not know; I have heard of such cases but I do not think they are common. Of course it would depend upon the nature of the contract; it may be perfectly proper in some cases.

Q.—The contract as you have indicated it there, you think ordinarily insurance companies live up to that the same as any other employer? A.—I think so.

Q.—And so that is the bargain, and your employment is at an end and the contract is terminated? A.—Of course there may be special cases, but generally speaking that is the case.

Q.—What is a fair amount of insurance for a good agent to write in a year? A.—$75,000 to $100,000.

Q.—What is a fair premium for $1,000? A.—$35, probably.

Q.—Then that would be how much gross first premium? A.—Somewhere in the neighborhood of $3,000 or $3,500.

Q.—That an agent should receive in first premiums, a good agent? A.—Yes.

Q.—And that would be a good agent? A.—That would be a fairly good agent; there are more do less than do more.

Q.—You mean do less of the public? A.—We are not supposed to do the public, the public do us from our view point.

Q.—If an agent is paid 75 per cent. on that he would be getting say $2,500 to $2,700? A.—Something in that neighborhood.

Q.—That is first year business? A.—Yes.

Q.—And then besides that he gets this interest in renewals? A.—That would come subsequently.

Q.—But as he goes on for a few years that grows, and it is increasing his account? A.—As against that, of course, he has travelling expenses and that kind of thing to pay.

Q.—What would be a fair amount for an agent to save to himself out of that $2,700, after he had paid all the rebates and allowances? A.—That all depends.

Q.—I am not going to ask you if they do rebate, we have got past that stage; the only question is how much? A.—I think an agent doing that amount of business would probably save from $1,500 to $1,800 a year for himself.

Q.—Out of $2,700? A.—I do not mean to say the difference would be in rebates entirely, but he would have legitimate expenses that would take up a large share.

Q.—What percentage would be his rebates, I know you cannot say anything exact about that without taking some particular case, but dealing with agents, I suppose you learn from them "True, I would make $2,700, but I have to give fully a third of that

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

away?" A.—I think that practice applies more particularly in the cities than to country business.

Q.—You think that does not apply so much in a company like yours, you mean? A.—I think the company whose business is in the larger centres would have more of that thing to deal with than where a business is scattered.

Q.—News spreads? A.—The people seem to have got into the habit of expecting.

MR. KENT: The greater the population the less virtue there? A.—I believe that to be true, that is, that Toronto is so much worse than here, and Montreal worse than Toronto.

MR. TILLEY: I suppose that all companies must know of this rebating, there is no question about that? A.—I do not think there is any doubt about it, they know of it.

Q.—All feel the effect of it? A.—To some extent.

Q.—If you could make that money stop in your agent's pockets it would just be a saving to the company, a certain portion of it at any rate? A.—In large part I think it would.

Q.—Have you any remedy to suggest for that? A.—I thought I had some years ago, but I have given it up.

Q.—Do you say it cannot be done, at any rate so far as your knowledge and experience can indicate, by the companies themselves? A.—I fear it cannot without some assistance, moral or otherwise, to help them.

Q.—By moral you include legislation? A.—I think so.

Q.—Having got legislation, what sort of legislation would you think should be put on the books? A.—My impression is the same kind of legislation that is intended to stop chicken stealing or anything of that kind, make it apply.

Q.—Who would you punish? A.—Everybody connected with it.

Q.—And particularly? A.—The giver and receiver and the company, too, if they receive it. I think they all know more or less about it. I think in fairness to the company I ought to say after all the companies, I believe, honestly do try to keep it within as reasonable limits as they possibly can. I think they are all anxious to do away with it if it can be done.

Q.—I suppose if it is necessary to get the business, a man going into the office and saying, "I have come to you without any agent canvassing me, and I want a little solatium," I suppose he gets is? A.—He would not get it from me.

MR. LANGMUIR: If it was entirely prohibited by law do you think it would materially lessen the amount of insurance written? A.—Not very much, I think it would cut out some of the business that goes on at the end of the year as a mere makeshift; I do not think it would lessen the legitimate insurance.

MR. KENT: It would have a tendency to lessen lapses of policies? A.—It probably would, because that class of business would be eliminated, and that is the class of business that does not stay as a rule.

Q.—And that would enable all the companies to diminish the commission paid to agents, and it would increase the profits to the policyholder? A.—It might have that effect, although I might say that I think the extra cost of living in recent years has had something to do with the expense of life insurance business, in fact in that respect I don't think it is different from any other line of business; I think it costs more to-day to conduct any line of business than it did ten or fifteen years ago.

Q.—If the Parliament of Canada was called upon to legislate simply to enable an insurance agent to keep the rebate in his pocket it is altogether likely there would not be much legislation put through. If a policyholder is not going to benefit by the stoppage of rebates, one of the principal reasons falls to the ground. If you do not think the policyholder is going to reap any benefit from the stoppage of rebates I would like you to say so? A.—What I meant to say was I do not think the whole difference would redound to the benefit of the policyholder, it might not, but I think a measurable proportion of it would.

Q.—My own idea has always been that as you say a measurable proportion would go to increase the profits of the participating policyholder? A.—I think that would be right.

MR. TILLEY: Q.—I see you decided to treat all weekly premium policies as paid up at the age of 85? A.—Yes.

Q.—Is that common to all companies? A.—No, it was a special feature. We felt we had reached the stage in our experience when we could grant that concession.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—You ask for no further premium if the insured lives beyond that age? A.—That is not a matter of contract, that is a concession the Board gave.

Q.—Do you ever have industrial policies that run longer than that? A.—I am not so sure whether we have any as yet, but if we have not we are getting very close to it.

MR. REID: We have not any yet.

MR. TILLEY: Q.—Do you publish books of estimates? A.—We do not in a sense, it is a book of estimates based on actual results.

Q.—Is this a book of actual results? A.—Yes.

Q.—In this book you take certain policies, and you show the premium of the different years, the actual dividend or surplus, what the net premium is after deducting that, what total is paid and cash surrender value at the end of the time, and so on? A.—Yes.

Q.—Those are actual results? A.—And the examples show they are intended to be a fair range of policies at various ages on various plans.

Q.—Do you think that is more in the interest of your company than to circulate estimates? A.—We think that is honest, it is the proper thing to do.

Q.—You think that is a preferable thing to do from an insurance standpoint, too? A.—Yes.

Q.—It is better to advertise the actual results than it is to advertise estimates? A.—Yes.

—Book referred to showing results of policies marked as Exhibit 304.

Q.—You have besides that advertised estimates? A.—They would apply to our more recent 3½ per cent. policies in regard to which we would not have the same experience as on those; but I may say our present estimates were prepared in 1900 when the new 3½ per cent. rates came in force, and that last year profits paid to our policyholders were exactly on the basis of those estimates.

Q.—I have not any particular criticism to offer of the estimates? A.—The estimates are based on the results of the past and they should be reasonably correct; in fact, we are doing better than those estimates would indicate.

Q.—You do not write tontine policies? A.—We do not in the ordinary sense of the term.

Q.—You have a reserve dividend whole life policy? A.—Yes, the value of the profits are used to increase the reserve fund and convert them into endowment policies eventually, that is a life policy will become an endowment at about shortly after the expectancy period.

Q.—It shortens the period? A.—Yes, the life policy would be payable only at death by the application of the profits, in that way it would convert them into endowment policies.

Q.—Is it guaranteed? A.—Yes.

Q.—You have an Ideal Income Bond? A.—Yes. That is, on attaining a certain age a man is entitled to a certain guaranteed income for the rest of his life.

Q.—Why are the companies substituting the word bond for policy? A.—I don't know, I suppose they do not want to call them all by the same name.

Q.—A guaranteed 4 per cent. instalment bond, you gave us no sample of that, describe what sort of policy that is? A.—I was under the impression we had put it in.

Q.—We have not one now, I will put it that way; it is 20 instalments of $20? A.—I would ask Mr. Reid to give you that information.

Q.—Also a annuity for life $40 per annum.

MR. REID: Yes, the policy is payable in case of death by 20 instalments of $50 each, in case of the insured living beyond the age he is entitled to $40 a year as long as he lives, and at death the policy is payable in 20 instalments of $50 each.

Q.—Do you put your surrender values and paid up insurance in the policies?

MR. REID: Well, they are in now, they were not in before this year.

Mr. Tilley files form of Industrial Policy which was marked exhibit 305.

Mr. Tilley also files profit and loss statement which was marked exhibit 306.

Q.—Your profit and loss statement has been put in, your loading on first year premiums for 1905 are $18,916? A.—Yes.

Q.—Your net expected death loss in 1905, $14,270; actual death loss, $5,065? A.—That applied only to the new business.

Q.—Total margins of first year premiums 1905, $28,120, expenses, $64,016; which makes your cost of first year business about 2½ times your margins for the first year? A.—Yes.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—Which is about 228 per cent. of your expenses, do you think that is a fairly low ratio for your expenses as compared with first year margins? A.—I think as compared with what you have found in the investigation it is pretty low.

Q.—You say by comparison with other companies you think that redounds to your credit? A.—It is about 450 in some you have found.

Q.—The loading on renewal premiums paid during 1905 amounts to $102,900, all other expenses except taxes $95,256, making a profit of $7,644, net expected death losses in 1905 other than renewal $103,001; actual death losses $74,167; that is about 72 per cent. Is that a little higher than usual in that year, or about the average? A.—I think about the average. I think it would run in a company of our age about 75 per cent. of the table rate.

Q.—That shows a profit of $28,834, your annuity claims do not affect your profit and loss for the year? A.—We have none.

Q.—Interest, dividends, rents received durng 1905, $90,873 less taxes $7,540, less credited to special funds, $1,177, less required to make good the reserve in 1905, $65,228.

MR. LANGMUIR: You received over 5 per cent.? A.—It averaged 5¾ per cent. and showed better on our mean invested assets.

MR. TILLEY: Q.—Then your outgoings would be $73,945 and your cash in respect of interest item would be $16,928; profits from sales or maturity $1,075. what is that in respect of? A.—We made a profit on the sale of some stocks last year.

Q.—What stock? A.—Canadian Savings and Loan Co. stocks.

Q.—Not Canadian Pacific Ry.? A.—No.

Q.—You never had any C.P.R.? A.—No, nor any other railway stocks, nor any other unauthorized stocks, I am happy to say.

Q.—Increase of market values net $960; reserves released by surrender and lapse, $20,728; less surrender values allowed $11,574, a profit of $9,154. Then a small loss of $184 in sundry matters. That leaves a total profits of $64,595, total loss item $36,029, leaving net profit for the year 1905, $28,516. You think that is a good showing? A.—It might perhaps be better, but I think it is fair.

Q.—Companies are not required to make up this profit and loss statement every year? A.—We have never been required to do that heretofore in Canada.

Q.—Do you think that would be a good innovation here? A.—I dare say it would serve a useful purpose. I might say anything that would be required in that connection reasonable notice ought to be given so that they could prepare their books. The information required in this case gives the companies a great deal of labor.

Q.—I suppose it is desirable to a very great extent that the bookkeeping systems of the insurance companies should afford a ready means of checking the returns with the Government returns and verifying the things rapidly; their systems should be to some extent uniform? A.—I certainly think that would be desirable, in any case whether uniform or not it should admit of being checked very rapidly, and you could arrive at it from the books of the company just where they are at.

MR. LANGMUIR: I see you keep your investments almost entirely in mortgages and debentures? A.—Yes, your Honor.

Q.—And loans upon your policies? A.—Yes.

Q.—Have you any difficulty in getting the requisite amount of mortgages and debentures to meet your requirements? A.—We have not had in recent years, though probably about 7 or 8 years ago there was a dearth of desirable loans in that way.

Q.—Is there any necessity so far as your company is concerned to widen the provisions of the Investment Act as to insurance? A.—Not so far as the present is concerned.

Q.—I suppose you regard insurance funds as trust funds? A.—I Certainly do.

Q.—Would you be opposed to investments in stocks, railway stocks industrial investments? A.—Of course that would need some qualification, there are some stocks which would be almost as good and quite as good as mortgages; there are other stocks that would be very risky.

Q.—Do you know that many of the companies are asking very much wider power? A.—I am aware of it.

Q.—But you have no difficulty today in getting mortgages and debentures? A.—We have not had thus far.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

MR. KENT: Would you be in favor of a proposition that was mentioned by one of the witnesses to stop rebating, that would be to fine the company $1,000 or to cancel its license? A.—As to the best method of doing that, of course that would require great consideration; I do not think that would be the best way of doing it.

Q.—I would like you to give us your best consideration say during the next 24 hours and before we leave London, to let me know what you yourself would advise, what abstract plan you would be in favor of, because half measures would be of no use? A.—I can tell you now what I think about it.

Q.—I would rather have your opinion later, than your opinion given on the spur of the moment, if you have never considered the matter seriously? A.—I may say I have given it quite a little consideration, that nothing short of legislation along the lines of makng it an offence and punishing everybody concerned as for any other offence would stop it, and you would then have a moral matter such as would make respectable people in the community desist from looking for that kind of thing, and if we had that I think that would be more than half of it. I don't think agents as a rule go around offering rebates; I think more people are seeking rebates than are offering them.

Q.—We have had a variety of reasons given, one Managing Director was frank enough to say he believed the fault lay with the company themselves? A.—I think sometimes it does.

Q.—If punishment was meted out it should seek the guilty party? A. —I think all parties to a contract of that kind are guilty. Any man who receives a rebate is equally guilty with the man who gives it.

MR. TILLEY: I will put in a copy of the Act of this Company which Mr. Jeffery says we are perfectly welcome to (files exhibit 307), and then I will put in also a statement showing the persistency of the industrial business of this company which has been made up for us (files exhibit 308.)

Q.—This shows in this column with the sign "percentage" over it, the percentage that remains on the books at the end of each year? A.—Yes, Mr. Reid made that up.

Q.—State what this shows, Mr. Reid?

Mr. Reid answers the questions until a change is indicated.

A.—The first table shows the average of duration of policies in the industrial branch, that is those policies in force at the end of 1905, the average duration of all policies was 6½ years.

Q.—And this second schedule shows? A.—The persistency of the business in the industrial branch that is taking the year 1903 for instance, 61.7 per cent. remains on the books at the end of the year, 37.9 per cent. remains to the end of the second year and 32.7 per cent. remains at the end of the 3rd year, and the other years are also set out there? A.—Yes.

Q.—We had it claimed by a company to be the leader in respect of this matter of persistency in industrial business; I suppose each company claims to be the leader? A.—We do not make any claim; but that statement there shows there was twice as much remained on the books there as in the case of the leader.

Mr. Richter answers the questions till a change is indicated.

MR. TILLEY: Q.—Was the Excelsior Life a party to the arrangement that was entered into between you and the Metropolitan in regard to the agents? A.—No.

Q.—It was contemplated they should be? A.—I cannot say as to that, it was a mutual arrangement between ourselves and the Metropolitan, this company being our chief competitors, and I may say in that connection the agreement emanated from the Metropolitan entirely. It had been in use on the other side between the Metropolitan, Prudential and other Companies, and it was found to be practicable and desirable, and they said, "If you wish to continue in the industrial business we think something of this kind is desirable."

Q.—Have you anything to say with regard to some matters that are before the commission that you wanted to mention, for instance about the granting of a License, was there something on that score that you wanted to mention to the Commission? A.—Perhaps if you will let me see what you have, my impression is that everything there would be in the interests of the business.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—What you think best would be to put this in as a memo? A.—Yes that might be of use to the Commission, and if there are any matters in connection with that, that need further elaboration I will be pleased to explain them at greater length.

Memorandum prepared by Mr. Richter filed as exhibit No. 309.

MR. GEARY: Q.—You were speaking a moment ago about the Metropolitan Agreement, saying it emanated from the other company, the Metropolitan is practically the largest Industrial company? A.—Yes, very much the largest.

Q.—As to the broaching of the subject of the agreement have you anything to say with regard to your reasons for wishing to enter into such an agreement? A.—I think their reason was having such an agreement on the other side and having found it beneficial. It stopped a great deal of unnecessary friction between the outside employees of the company, and they thought it would be desirable to have it in Canada, and Mr. Fiske, the Vice President of the Company, having occasion to visit Toronto when I was there, and he and I going to Montreal one evening together on the car he broached the subject to me then, and as the result of this conversation this Agreement was come to.

Q.—Did he prophesy any steps that might be taken if the Agreement had not been entered into? A.—He did not say what would be done, he said what they might do.

Q.—I suppose it is a matter of protection for you to have an Agreement with a powerful company like that? A.—We look upon it as that, although up to that time we did not feel the need of it, but there is no doubt there was a great deal of friction in the field, and I do not think that friction was good for the business.

Q.—I understood it was not foreign to the minds of these industrial concerns on the other side to put another company out of business if that is necessary? A.—That has been charged to them in the past. We never were in a position when they could put us out of business.

Q.—Nor did they threaten anything of that sort in this country? A.—Not frequently, anything of that kind would be implied rather than stated.

Q.—It was present to your mind? A.—I cannot say it was seriously.

Q.—You had heard of it being done? A.—Yes.

Q.—You do not know that they pursue that policy generally throughout the Dominion? A.—No.

Q.—I would like to know how wide spread, because we do not know exactly, is this system of industrial insurance, how large a field does it cover, and how closely does it cover the field it has entered into? A.—It is confined largely to the cities and large towns, or if it has operated in any of the smaller places they would as a rule be adjacent to some larger place, sufficiently so to admit its being operated from the larger centre.

Q.—Do you find a great proportion of the members in the industrial classes are insured in some one of these companies? A.—I think they are, I think it is very generally availed of throughout Canada in the cities and towns.

Q.—I infer the object is to provide for funeral benefits? A.—Yes.

Q.—And medical attendance? A.—Well, medical attendance is not any feature of it.

Q.—You are restricted to a certain figure? A.—At certain infantile ages.

Q.—Is there anything to prevent three or four companies insuring for that amount independently the one of the other? A.—The Act provides the total insurance shall not be more than that.

Q.—What precautions are taken to provide that? A.—The company's policies provide that if there is insurance to more than that the insurance shall become void. The application of course asks for the insurance, about what other insurances are on the life of the insured, the facts might be misrepresented.

Q.—Has this been productive of fictitious insurance—I understand in your company you have had some little of that? A.—Very little of it.

Q.—The entirely ficitious persons are insured? A.—Such things have happened, but there is very little of that happened because the system of inspection is such that it could not continue without the collusion of the superintendent. If everybody connected with it, the superintendent and the agent were dishonest it would be possible.

Q.—When do you lapse your policies for nonpayment? A.—If it is in arrear four weeks it is lapsed the 5th week.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—Is it not pretty much the matter of the personal attention of the agent that prevents it lapsing? A.—very largely so.

Q.—They get accustomed to paying him the premiums? A.—Yes.

Q.—Should he fail, then many of them might become lapsed through misunderstanding on their part? A.—No.

Q.—How do you stop it? A.—If an agent discontinues another agent has to reproduce that debit.

Q.—You follow each district out each week? A.—Yes.

Q.—You take care in your company through the fault of the agent there should not be any remissness? A.—Yes, we want to save the business.

Q.—Have you ever made a computation of the number of lives insured before 1899 which might be reasonably expected to be on the books in 1910? A.—Mr. Reid made it up.

Q.—Not industrial, but I am referring to ordinary insurance? A.—I cannot say I have such a computation.

Q.—It has been said to us that probably 50 per cent. of them would be? A.—Mr. Reid is the active actuary who deals with these matters.

The questions are answered by Mr. Reid until a change is indicated.

MR. REID: The business now on the books, or on the books in 1899?

Q.—The business was on the books in 1899, what percentage of that will be on in 1910? A.—It would depend altogether on the duration of the business; if it was a young company it would be a greater percentage than an old company.

Q.—One company said 50 per cent.? A.—I should imagine 50 per cent. would be perhaps a fair estimate, but it is a guess.

Q.—Under your system of strengthening your reserve by annual additions to make up the amount which would be ultimately placed to the credit of it and bring it up to the proper reserve, has any serious loss been suffered by any annual or quinquennial distribution.

Mr. Richter answers the questions until a change is indicated.

A.—Not any serious loss. We reduce the profits on the old plan, we reduced those 1/3, that is on the 4½ per cent. basis, on the 4 per cent. basis ¼.

Q.—Was it as good a plan as if you had made a general change such as was made in some companies at once—some of the companies established a higher reserve in one swoop, and those companies suffered a considerable diminution in profits? A.—In some cases they got no profits at all.

Q—You have adopted the annual method? A—We are just taking the profits for that—

Q.—Can you compare the results to policyholders by adopting that system—there would be 50 per cent. of the policies fall in the meantime, those people, of course, under that system suffered very materially? A.—Yes, under our system they would suffer as little as possible, if we were to accomplish what we are aiming at.

Q.—Less, you think, than if the whole amount had been transferred to reserve? A.—That is self evident.

Q.—I should think that was so myself. You anticipate no difficulty whatever in bringing your reserves up by this annual method? A.—No, unless we meet with some unforeseen losses.

Q.—It has been a practical method of increasing your reserve steadily to the limit? A.—Yes.

Q.—And one that is proving perfectly satisfactory? A.—If I might be permitted to express an opinion in that connection I might say I think the requirements in that connection is very improper.

MR. LANGMUIR: What is that?

MR. GEARY: The witness wants to make a statement in regard to the legislation making the requirement in the reduction as to the reserve.

JUDGE MACTAVISH: It does not commend itself to your judgment? A.—I think the legislation of 1899 in making the putting up of this reserve retroactive was entirely improper, I think it ought never to have been retroactive, I think that old business should have carried itself on the common basis. It gave the opportunity for injustice to participating policyholders on the part of companies who were so disposed to make it drastic, by taking too much at once, and they had the authority of Law to justify them in doing it. I do not think the public opinion would have permitted any company to do anything so drastic as that if it had not been for the legislation.

MR. GEARY: Q.—You were not so much alarmed about the threatened fall of the interest rate? A.—From our standpoint there was not any

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

occasion for it at all. Some of the companies did not earn so high a rate of interest because they were not investing in the same class of security.

Q.—The legislation would have been satisfactory and fully up to the requirements if it had only provided for a higher reserve on the business subsequent to the passing of the legislation? A.—I think the Legislature would have been to be commended if they had acted more promptly, I think five years before they did take action they should have reduced it to a 4 per cent. standard, and that would have been good for ten or fifteen years, and then have applied the 3½ standard and in that way no injustice would have been done anyone and it would have served every practical purpose.

Q.—As a matter of fact it works out where the reserve was increased by one transfer in the year 1900, that those policies in force, the 50 per cent. of policies in force in 1910, and a lesser number of policies in 1915 will benefit very materially on those policies which have become claims in the meantime? A.—There is no doubt about that.

Q.—You were speaking of participating and non-participating policies, and I will be very glad if you will give me your opinion as to which is the proper kind of insurance, should insurance be confined to its original object, that of protection, or is it proper the investment feature should be introduced? A.—I think both are equally proper as far as that goes. Life Insurance companies must sell what the public wants. The demand in this business is very largely for endowment policies.

Q.—You do not issue tontine policies? A.—We do not issue tontine or semi-tontine policies, but I think a distinction can be made broader than that. The expression tontine is really applicable to profits. It has nothing to do with insurance. It is merely tying up the profits for a certain number of years in expectation of getting larger returns on account of those who dropped out in the meantime. In a general way I think that probably five out of six men who in early life take a life policy would, in later years say they wished they had taken out an endowment. I think the majority of people 50 or 60 years of age if they were advising their sons, would say, take an endowment policy.

Q.—How about the ordinary with-profit policy that is not an endowment? A.—That would apply to both kinds, with or without profits.

Q.—You think this investment feature, giving profits, should be continued and is advisable? A.—I think in our day probably the large percentage of the people would prefer it.

Q.—Do you think that those insuring, making an arrangement or contract to have a certain division of profits can by any manner of means tell what they are to get, or what they may hope to get? A.—In advance?

Q.—Yes, that is there is a large chance element? A.—We cannot tell it under present conditions, but I think that chance element might be very much minimized.

Q.—Let us hear about it? A.—For instance, companies might be compelled to apportion profits oftener than they are doing. They might set them aside in such a way that policyholders might know what is at their credit.

Q.—An annual distribution? A.—We were an annual distribution company ourselves in our early years, but the fluctuations are too violent from year to year in a small company, that is they are liable to too violent fluctuations, you may have considerable profit one year and loss the next year. I think a five year distribution fairly eliminates that difference of fluctuations and I do not think any material hardship would be entailed by companies being required to make such quinquennial distribution, and I do not know any reason why a company should not be required to let the policyholder know what is at credit if he wishes to know.

Q.—If he wishes to know what is standing to his credit on the books you should be able to give out that information? A.—Yes, I think he should be entitled to it.

Q.—But you would not for the reason it multiplies labor, and for the reason you have given as to fluctuations in earnings favor an annual distribution? A.—No.

Q.—And that was the reason you departed from it? A.—Yes, because even now we set aside our profits annually and treat them as a liability.

Q.—You do not set aside on each policy? A.—Yes, we apportion them.

Q.—That is tenatively? A.—But of course fluctuations will be corrected in the five year period.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

Q.—Should the policyholder come in between the quinquennial divisional periods and ask how his policy stood, you would be prepared to tell him that there had been that tenative apportionment? A.—We would tell him to a cent.

Q.—You think that is what your company and every company should do? A.—I would not like to go so far as to say every company should do what we do, but I think it is desirable.

Q.—You have done it because you think it is the right thing; and you would not do it unless you thought it was the right thing? A.—Of course having our system adapted to that kind of thing we can do it. Some of the companies might find it a hardship to do it, but I do not consider it could be considered a hardship if they had to do it once in five years.

Q.—Your experience does not enable you to answer it from a personal standpoint; it has been said that really the underlying object of quinquennial division, withholding the profits for five years, or deferred dividend systems, is that funds may be accumulated in the hands of the company, and the directors or managers given undue power with the immense moneys which come to them? A.—I would not wholly concur in that view; I think perhaps there is another reason for it. I think the prime reason why tontine policies are sought to be placed by the companies is that it has more to do with avoiding a distribution of profits until considerable years have lapsed than any desire of increase of funds.

Q.—Supposing they are already making a quinquennial division? A.—In that case it affords a further opportunity for increasing expenditure without it being noticeable; I think that is borne out by the experience of companies that since the endowment and tontine insurance the cost of insurance has very materially increased.

Q.—You load to a certain extent on policies? A.—Yes.

Q.—You add a loading for profit policies? A.—Extra loading.

Q.—Is it a constant? A.—Both constant and percentage, that is I think the latest system of loading is percentage and constant; it should be a graded percentage. In the earlier years of the life insurance business it was altogether a graded percentage that is there would be a higher percentage in the younger ages, recognizing there is a certain constant of uniformity common to all policies, that has become more methodical by adopting a constant.

Q.—The loading of the participating policy over a non-participating policy may be called the profit loading? A.—I think so.

Q.—You make no effort to distinguish that and keep it to itself as the policy goes on? A.—We certainly do.

Q.—The profit loading is kept in your books as a separate feature? A.—You mean the difference between the two loadings?

Q.—Yes? A.—No, but the earnings of that particular policy is kept separately.

Q.—But your profit loading is treated as a loading for instance in common with the others? A.—Yes, with the anticipation of a part of it being returned in profits, and when we make up our profit estimates or accounts we take that into account, that is the profits are distributed on the contribution plan, saving from loading, saving from extra interest, and gains from mortality, each of those elements are fully recognized and dealt with accordingly. All the profits of the business go to the participating policyholders. There is no share of the profits from the non-participating goes to the stockholder other than the general share of the surplus.

Q.—Do you think your non-participating business carries itself? A.—I think it does.

Q.—The non-participating policies do more than pay for themselves? A.—Yes.

Q.—They make a slight profit? A.—I think they would make a slight profit, and I think the premiums are so graded as to be a fair premium for the average duration of the policy. If the policy becomes a claim during the earlier years there has not been a profit as the result from that; if a policy extends to the end of the contract there probably was some profit.

Q.—The non-participating policy is practically, or is supposed to be in the public mind at all events, a cost policy? A.—A fair margin of business profit in it.

Q.—Would it not be fair that that class of policy earning profits should share in the distribution of those profits, otherwise than by contract? A.

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

—No, as a matter of principle I think not. I think in the first place that the premium charged should be a fair and reasonable premium, it should not be a premium which would be too great, that is it ought not to realize an unfair profit. I do not think if "A" dies the first year and we make a loss on "A," and "B" lives to the end of the term and we make a profit on "B" that therefore we should give "B" a profit.

Q.—That is if you are losing money? A.—We would lose money in the case of a man dying early.

Q.—It would not be fair to return it to him in reduction of premium? A.—No, that would be a case of heads I win, tails you lose, and that would not be fair.

Q.—Every five years or every ten years have distribution of those profits, would not that be fair? A. —Non-participating policies?

Q.—Yes? A.—What would be the object of issuing non-participating policies?

Q.—None, except this, your interest gains are so great as to give those people profits on the money they themselves have paid in? A.—That is all taken into account in the computing of the premium in the first place.

Q.—I am just asking your opinion as to whether you think it would be a fair thing to do— A.—I do not think if we enter into a contract with a man and we lose we have to make the loss, and if we gain something that you should take that gain.

Q.—Do you think it would be proper to issue a policy of that sort? A. —I don't think so.

Q.—You are earning a high rate of interest owing to the fact that you are securing good loans on real estate I fancy more than any other? A.—I think our higher rate of interest than is earned by companies on the average is due to the fact that our investments are wholly on mortgages and debentures.

Q.—If you were ten or fifteen times the size you could not get those investments? A.—Probably not to the same extent.

Q.—Would you argue from that that a company restricted to reasonable limits of assets can make a better interest rate than a larger company? A.—I think experience proves that is the case.

Q.—You would stand for that principle, that a company as it goes beyond the reasonable limits to which yours has grown is likely to suffer from the amount of funds they have in hand, the rate of interest earned on those funds being necessarily lowered thereby? A.—Yes, the money itself is in competition with itself.

Q.—You think $50,000 paid-up stock about right? A.—That is a matter of opinion.

Q.—You do not think a capital stock of greater amount than that would be of use to your company or any insurance company? A.—It might or might not, it would depend on what we intended; if we intended extending our business I think the capital stock ought to be increased.

Q.—You would not be in favor of reducing your $50,000 by mutualization— A.—The company could not very well start to do business without $50,000.

Q.—You consider that to be about right, because when you applied for more stock you took it by way of calling in premiums, it works out a mutualization of that extra call when you pay it off? A.—Yes.

Q.—It is the same as though you had made calls and then mutualized, paid it off out of the company? A.—That is the position.

Q.—After the early years of the company the stress of beginning has passed by, capital stock really is not a great deal of use to a company? A.—It ceases to be a necessity just as the company gets further away from the beginning.

Q.—And the lower it is within reasonable bounds the better? A.—That must be apparent to every one; no doubt you will find other people who will say the exact opposite.

Q.—Was it stated how your commission to agents run? A.—To general agents about 50 to 75 per cent. graded.

MR. KENT: Is that rate of commission paid on the non-participating policies as well as the participating? A.—We pay three-quarters of the rate we pay on participating on non-participating. We do not get so big a premium. We have not so large a margin to pay expenses.

MR. GEARY: Q.—You give these large commissions, part of which is given away, one-third does not get into the agent's pocket, one-fourth? A.—I do not think I said that.

Q.—I think you said he would get about $1,800 out of $2,700, and $900

49th day, London, June 28, 1906.

London Life Ins. Co.
(John G. Richter, Ex'd.)

would represent rebates and some expenses? A.—What I said was they were for expenses, travelling expenses and incidental expenses which would probably take the major portion of the other if he did not do any rebating at all.

Q.—Has the commission got to the large point at which it now is through the folly or evil of rebating? A.—I don't think wholly so; I think that is a factor but only one of several. I think the increased cost of living has had something to do with it.

Q.—The same thing that has increased salaries? A.—Yes.

Q.—It struck me it was pretty much this way, that the company practically gave to the agent a large sum of money by way of commission, telling him at the same time, "You may go and get business, and here are enough funds by which you can meet the competition of others," does not that apply? A.—No, I would be very much surprised to find that was actually the case.

Q.—They would not do it consciously or in actual words, but is not that the reason? A.—I would be surprised if they do it in spirit; I think not.

Q.—You blame it on the agent? A.—No. I think the companies as a class would prefer that an agent should not rebate. I think agents as a class would prefer not to rebate. I think that applicants for insurance when they know there are rebates going will ask for a rebate, and the agent will then give something off, and rather than lose the business he gives the rebate, on the principle that half a loaf is better than no loaf, and I think the average agent will not rebate unless he has to.

Q.—You think it is competition? A.—Yes.

Q.—The strenuous push for business emanates from the companies themselves? A.—The companies may be to blame for it partly in pushing their agents too hard for business.

Q.—They cannot lay it too much to the agents? A.—No.

Q.—Others have said you could get no business if you were to wait for people to come for it, what do you say? A.—We could not get enough for the support of the message boy. I think life insurance is like religion, you have to go out and compel people to come in.

Q.—They seem to have got that far in England? A.—I think not to that extent, but I think they are much better informed, and there is more inducement for a man to take a policy of insurance in England because the ordinary rates of interest are not so high there as here.

Q.—A great many of the industrial class are insured in this industrial insurance in your company and others; are those people carrying ordinary life insurance? A.—I think 75 per cent. are carrying no other insurance.

Q.—And they are bound to pay a higher price? A.—It is the only way they can pay for it.

Q.—And some of them are insured in friendly societies? A.—Some of them are, perhaps, a great many not.

Q.—Do you push policies below a thousand? A.—Industrial policies are less than $500. We have an intermediate plan, that is $250 and $500 policies; we call them intermediate, it is ordinary insurance only we distinguish between $1,000 and these policies by calling them $250 and $500.

Q.—How are they paid? A.—Quarterly and semi-annually.

Q.—These intermediate policies are pressed by the same agents who have in hand the industrial business? A.—They may transact any one of the three kinds of business.

Q.—You say 75 per cent. of the people have only industrial? A.—I think the percentage would be greater in regard to the intermediate; you take intermediate policies and the difference would be greater, people with a little more means.

MR. KENT: You said a moment ago that you sold the kind of insurance that the people wanted? A.—That is what we are aiming at.

Q.—We have heard the same remark from almost every witness we have examined, and I have made the same remark I make to you, you do not offer the goods in the same way; how is it an agent is expected to offer two plans of insurance if he is going to get one-third more commission on one plan than the other, is it not natural to suppose he is going to push that plan that is going to give him the most profit? A.—If there were no other features influencing he probably would. In that connection I may say that up to 1900, up to the time that the new 3½ per cent. rates came into force we made no distinction, the commissions were

the same on participating and non-participating. After the 3½ per cent. rate we could not do that; we had to in fairness to the non-participating policyholder to make the loading as light as possible because of the wider difference between 3½ per cent. rate of interest on the amount required to hold his reserve, and what money was worth under normal conditions, particularly in our case when we were earning over 5 per cent. for our money. Since 1900 the net rates on 3½ per cent. basis are about as high as the previous gross rate on the non-participating plans. We cannot raise those very much. I think our loading on non-participating business is 7½ per cent. on the dollar. I am open to correction.

MR. REID: That is correct.

MR. KENT: My opinion has always been right there that the non-participating is carried partly by the participating policy; then I understand you ought really to have further increased the premium rates of non-participating policies? A.—I do not think we ought to have done so, because the lowering of the rate, the lowering of the reserve standard to so low an interest rate as 3½ per cent. when we were earning 5 per cent. on the money, if you charge that on the loading which would be ordinarily applicable under conditions under a 4½ contract or even 4 per cent. contract we would make the rate too high to be fair, and the non-participating man would be contributing too great a proportion of the profits that were coming in, and that would not be fair to that man. We are aiming to be as fair as we can between the two classes, having regard to the conditions, both legal and commercial.

Q.—Is it not practically the same principle that makes a grocer sell sugar at cost, the hardware dealer sell nails at what he pays for them? A non-participating policy, it seems to me, is kept in stock to meet other companies on the same ground; it does not pay anything, and therefore it is not pushed. I do not like to hear any witness say "We sell what is asked for." If the agent brings that class of policy before the proposed insurers in the same way that would be perfectly correct, but if an agent only gets a certain proportion of one class and a larger proportion of another he is certainly going to push that plan that gives him the most profit. The different plans are not on the same basis as far as the agent is concerned. I may say for myself I took the advice of an agent in every case where I have taken a policy. I did not know anything about the different plans. He talked until he was black in the face and I was no further advanced? A.—It may help you somewhat if I tell you that since 1900 when we introduced the 75 per cent., that is to say that the agent who does non-participating business gets three-quarters of the participating commission, I think the larger proportion of our business is non-participating, is better than it was before. Mr. Reid will know.

JUDGE MACTAVISH: That is the non-participating business is not going down? A.—I don't think so; I think relatively it is increasing.

JUDGE MACTAVISH: Is that your experience, Mr. Reid?

MR. REID: There is just this qualification, that up to 1900 we did not issue non-participating rates. We issued a non-participating rate when asked for it, but we did not have it printed. After 1900 we had the non-participating printed, and that may have accounted for the agents selling more of it after that point.

MR. KENT: Previous to that you did not have the goods in the window?

MR. REID: They got the same commission previously on both plans, but they did not have the rates, they had to write it for them.

JUDGE MACTAVISH: With reference to participating policies what is your experience as to the cost of the clerical work, of apportioning profits annually; I understand from your evidence that your company although it does not distribute the profits annually apportions to the policyholders the profits annually? A.—In our case now the clerical labour in that connection is a mere bagatelle, because we have the matter so arranged it is almost automatic.

Q.—Would the cost be excessive to a company who would commence now to do that? A.—I do not think the cost would be excessive, but I think the fluctuations would make it a little bit difficult to do it in the case of a younger company.

Q.—That would make it a question of expediency? A.—Yes.

Q.—But some companies have felt according to the eivdence before us

49th day, London, June 28, 1906.

Northern Life Assurance Co.
(T. H. Purdom, Ex'd.)

that it would be an extraordinary expense, additional expense to apportion annually the profits? A.—Of course their system may have been such that it may have been—

MR. TILLEY: That is the individual card system for each policy?

JUDGE MacTAVISH: But the London Life has not the card system? A.—Yes, Your Honor.

Q.—And you are speaking of the card system? A.—Yes. We did not have it originally, we use the card almost entirely.

MR. TILLEY: Q.—Would you give us some samples of your cards so that we can put them in as an exhibit? A.—Yes.

Q.—Mr. Reid, will you tell us how you keep your accounts?

MR. REID: At the end of each year, or towards the close of each year, all the policy cards, that is cards showing the payments and showing the record of the individual policy all these cards are gone over and the proportion of profits that has accrued or is payable on that policy is inserted in pencil, and those sums are totalled at the end of the year and are inserted in the liabilities as a liability. The total amount of that last year was $23,000.

JUDGE MacTAVISH: I had the impression that that involved a very large additional labor, and I am very glad to hear from you that as far as your company is concerned you seem to have overcome the difficulty? A.—It can be so arranged that it need not necessarily involve a large amount of labor.

MR. TILLEY: It would involve a lot of work I suppose to go back and get the system established? A.—The labor would be in the preparation.

Q.—Having once got the system established it would be simply a matter of book-keeping, it would not take much extra work? A.—That is the idea.

Q.—That is what Mr. Bradshaw said? A.—We deal with it very methodically every year, and do not let it get behind.

MR. KENT: Q.—You would not consider a loading of 5 per cent. on non-participating policies as sufficient to carry it? A.—When we load it 7½ per cent. on the policy that is running pretty close.

Q.—One of the witnesses we had before us stated it was 4½, certainly not more than 5; he said that the policy could be carried at either 4½ or 5? A.—I would not like to say it could not, but I think it would be a case of sailing close to the wind. There would not be any margin of safety in that. I do not think it ought to be the business of a life insurance company to run so close as that. I think contracts ought to be safe above everything else.

Q.—In a case like that it might fairly be held it was the participating policy that carried it? A.—I think you would have some justification in coming to that conclusion.

MR. TILLEY: I have been handed a copy of the agreement instead of the original between the Metropolitan and the London Life, and attached to that the company has been good enough to put a letter sent to their agents informing all their agents (substituted for exhibit 300). That is all I have to ask Mr. Richter, and I see no need to call any other officer of the company. I now propose to go on with the Northern Life Assurance Company.

NORTHERN LIFE ASSURANCE COMPANY OF CANADA.

Matthew Wilson, K.C., and Alexander Purdom appeared for the Company.

THOMAS H. PURDOM, K.C., sworn, examined by

MR. TILLEY: Q.—You are the President of the Northern Life Assurance Company? A.—Yes sir.

Q.—You have been President for what length of time? A.—About three years I have been President, since the death of Hon. David Mills, and he died 8th May, 1903. Hon. David Mills was the President of the company from the date of its organization.

Q.—Until his death? A.—Yes.

Q.—Did you devote much of your time to the affairs of the company? A.—Well, I devote considerable time to it. I go to the office of the Northern Life every morning about half-past ten, and I go every afternoon about three o'clock and attend to whatever has to be attended to.

Q.—You are somewhat of a working President? A.—Yes, I have not neglected the duties, even long before I was President I did that, in fact since the organization.

49th day, London, June 28, 1906.

Northern Life Assurance Co.
(T. H. Purdom, Ex'd.)

Q.—I think I am right in assuming that you are conversant with the history of the company right from the very beginning? A.—Yes, from its very commencement.

Q.—Your Manager's name is what? A.—John Milne.

Q.—How long has Mr. Milne been with you? A.—He has been Manager since the organization, never had any other Manager.

Q.—Was he one of the parties to the organization of the company? A. —No, he came in afterwards when we were trying to get the best manager we could get.

Q.—Who would it be right to say was the person that concerned himself in getting up the company? A.—It was organized by Mr. Mills and Mr. Parke and myself. Mr. Parke was my former partner.

Q.—Mr. Parke was also a solicitor? A.—Yes.

Q.—How long were you in process of organizing the company before the Act was passed? A.—It would be some little time, I don't know how long; I would think probably a year.

Q.—Getting the subscriptions for stock? A.—Yes.

Q.—And the general work that is involved in getting a company started in life insurance business? A.—Yes.

Q.—Had you previously had any interest in life insurance companies? A.—None whatever.

Q.—Had your partner? A.—No, neither of them.

Q.—Or the Hon. David Mills? A.—No, neither of them.

Q.—Then it was a new venture? A.—The reason I said neither of them, Mr. Mills had been a partner prior to that time.

Q.—So that it was the present and past members of the firm so to speak at that time? A.—It was.

Q.—Was there any person that was associated with the organization of the company who had any previous knowledge of insurance business and the difficulties of insurance companies? A.—No, I do not think so.

Q.—You took the burden of it yourselves? A.—Yes. We took the burden, it was really suggested by reason of my connection with a Toronto Company.

Q.—With what Toronto Company? A.—With the British America Fire, it came out of that. It was a suggestion that came from John Morrison of the British America Fire, and he and I had a talk of it, and when I came to London I mentioned the matter to Mr. Parke.

Q.—Tell us what motive would prompt the organization of a new life insurance company in the year 1894 having regard to the conditions then existing? A.—We thought there was a very good opening for a good company, and life insurance we thought was a good line, and that London would be a good centre to have for a good life insurance company.

Q.—You thought there would be virtue in having a local company? A. —Yes, having its head office in London we thought there would be a good opening, and it would be a successful institution for the city as well as good for those who became connected with it.

Q.—And you thought you would be able to get local people to take an interest in it? A.—Yes.

Q.—Were you cognizant of insurance conditions as they then existed? A.—I don't know that I could say I was.

Q.—Were you surprised at the conditions that existed when you discovered them? A.—No, I will tell you what we were surprised at, the number of new companies that started not long afterwards. Before we got fairly under way several companies had started, or were being canvassed for. Had the conditions remained as they were when we first commenced to organize the company and the number of new companies had not been formed it would have been a much easier task to have successfully launched the company than it was after the number of competitors that came into the field shortly afterwards.

Q.—Then you say at about the time you incorporated this company or got a charter for it that others were also in the field? A.—That is right.

Q.—And do you suggest that there was an over-supply at that time or soon afterwards? A.—I don't know that I would call it an over-supply; it is hard to say what is an over-supply because the country is growing and growing rapidly.

Q.—Did the fact that other companies came into the field alter the conditions under which you were trying to organize this company? A.—I think it probably made it harder to get good agents. The organization of a new company, as I look at it, and making it a successful company depends very largely on being able

49th day, London, June 28, 1906.

Northern Life Assurance Co.
(T. H. Purdom, Ex'd.)

to get good agents. The greater the number of young companies in the field makes it that much more difficult, and you will appoint probably 20 agents before you will get one good one probably out of the bunch. That has been our experience. If the company can get a good field force it is not a difficult thing to carry on the business, but the trouble is to get good men in the field.

Q.—Did the conditions in the way of getting business become more strenuous at about that time or in the earlier years of the Northern Life? A.—Well, you see I can hardly tell you because I was not very well versed with what the conditions were prior to the time we went in. Certainly they were strenuous at that time and have been ever since.

Q.—The Act that you procured was 57 and 58 Victoria, Chapter 122, that is in the year 1904? A.—Yes.

Q.—And the persons incorporated were William McGregor, Thomas Long, John Ferguson, E. Jones Parke, John Campbell, P. H. Purdom, Donald A. Smith, A. Gunn, Frank E. Leonard, David Mills, F. A. Fitzgerald, and William John Reid? A.—I think there were some names left out of the Act that were on the petition, I think they were just inadvertently left out.

Q.—This, at any rate, incorporated these persons and such other persons as joined them? A.—Yes.

Q.—Were those persons local to London? A.—Most of them, some of them are not.

Q.—Thomas Long? A.—That was of Toronto.

Q.—John Ferguson? A.—London, and William McGregor was Windsor. He is dead.

Q.—The name of the company was the Northern Life Assurance Company of Canada? A.—Yes.

Q.—And the company was authorized to effect contracts of insurance in Canada and elsewhere upon any person, etc., and to grant or sell or purchase annuities? A.—Yes.

Q.—Was there any discussion of the terms of the Act when it was going through the Legislature? A.—No, that Act is based on the North America Act.

Q.—The North American Life Assurance Company had its Act revised about that time? A.—I am not sure whether it was before or after that, but that Act was based on the North America Act, and there was no trouble with the Act passing.

Q.—The capital stock was fixed at one million dollars, divided into shares of $100 each. There is a provision that the directors might after the whole capital stock had been subscribed and $500,000 had been paid thereon in cash, increase the amount of the capital stock at any time from time to time to an amount not exceeding two million dollars, but the stock shall not be increased until the resolution of the Board of Directors authorizing such increase has been first submitted to and confirmed by a majority in number and amount of shareholders at an annual general meeting. Has the capital stock ever been increased under that section? A.—No, no advantage has ever been taken of that.

Q.—So that your capital remains at one million dollars? A.—That is the authorized capital but that is not all subscribed.

Q.—What is the subscribed capital? A.—$836,800.

Q.—There has been no capital subscribed lately? A.—No.

Q.—Have you been attempting to sell it or dispose of it lately? A.—No.

Q.—I mean in any organized way? A.—No, there has been no attempt made to sell any of the stock since the company was organized.

Q.—The paid up capital on the first January of this year was $213,850? A.—That will be right.

Q.—Was the stock sold at a premium? A.—No.

Q.—That idea had not become so common as it has in recent years? A.—The companies that came into the field after us introduced that.

Q.—I think the Imperial was probably one of the first? A.—I think the Imperial was one of the first to introduce that idea.

Q.—And many other companies have followed that suit? A.—That was done for the purpose of preventing impairment.

Q.—I suppose it can be fairly said that is done for the effect it has on the public more than anything else? A.—No, I think it is done for the purpose of preventing impairment in the early years of the company.

Q.—That is something more as to keeping public opinion right than anything else? A.—Yes, that is what that is for, that is the indirect reason.

Q.—For instance we might find a company that has paid out $90,000

49th day, London, June 28, 1906.

Northern Life Assurance Co.
(T. H. Purdom, Ex'd.)

of premium to get established, so long as it is premium it does not count so much as if it were capital——? A.—It does not show impairment on the capital; it shows impairment of that money paid in to establish the company, it does not show impairment of capital, and that is a very desirable thing to escape.

Q.—It is possibly advertising in a way that seems of practical benefit? A.—I think it is a good idea.

Q.—Because it lets a shareholder know to some extent what money he is setting up for the expense of getting that company organized? A.—I think it is good in this way, too, that it gives the shareholder an idea of the amount of money it would cost to put the company on a paying basis.

Q.—He has an intelligent idea as to what the shares are costing him? A.—Yes.

Q.—Was any money spent to any considerable amount in connection with your company before the incorporation? A.—It is not a very large amount of money, I think three or four thousand dollars.

Q.—Was that reimbursed to the parties who spent it by the company? A.—Yes.

Q.—What ones of the directors expended it? A.—I did that.

Q.—And you supplied the money? A.—Yes.

Q.—What use would be made chiefly of that? A.—That was money advanced chiefly to C. F. Caldwell to get subscriptions. He was paid a commission of 5 per cent. on the cash received.

Q.—Was a call on the stock determined on before he commenced getting subscriptions? A.—No.

Q.—Was he not in a position to inform the proposed shareholder what he would likely have to pay as a call? A.—The original idea was ten per cent.

Q.—That would be the information as to calls he gave them? A.—Most likely he represented that to them, and afterwards he got them to pay up in full, and some stockholders paid up in full, and some different percentages.

Q.—I was trying to get an apprehension of what was considered by your company to be fair to pay a man to place your stock if he sold shares, and was then getting ten per cent. paid up, he would be making $2 on each share? A.—No, he would only get 5 per cent. of the $10 on the cash he got, not one-fifth.

Q.—He would have to get a good many shares to make any money? A.—So he did.

Q.—Did he have the exclusive handling of the stock? A.—No, George E. Casey got part of it subscribed on the same terms.

Q.—Does 5 per cent. on the cash received fairly represent what you Provisional Directors expended to get your stock subscribed by way of commission? A.—Yes, although it was not that much, because quite a lot of the stock was subscribed for without any subscription at all and without any advantage. The total would be below 5 per cent. of the whole.

Q.—But where you had to pay that is what you did pay? A.—Yes.

Q.—Was there any commission allowed in respect of any of the directors' stock to any person? A.—None whatever.

Q.—No payment made to any person? A.—I am wrong on that, Robert Ferguson, his subscription was obtained through Mr. Caldwell, a commission was paid on that.

Q.—Because he was brought in in that way there was commission paid? A.—Yes. If there were any others it would be the same way because Caldwell got a commission on whatever amount he got in cash.

Q.—That explains that, but what I was wanting to get at was whether there was any arrangement by which capital stock would be paid in and then a commission allowed or a little rebate on the stock? A.—No, no advantage of any kind derived by either Mr. Mills, Mr. Parke or myself, or anybody else.

Q.—You paid in the amount you purported to pay and that remained with the company? A.—In full, and they have had the benefit of it ever since.

Q.—Did any of the directors take out insurance policies at the commencement in order to give the insurance company a good start? A.—I cannot recall any; Mr. Mills did not and Mr. Parke did not, and I did not; I do not know of any who did it.

Q.—Has there been any preference given in the way of premiums? A.—None whatever.

Q.—Or a sort of special rebate given to the directors of the company? A.—None whatever.

49th day, London, June 28, 1906.

Northern Life Assurance Co.
(T. H. Purdom, Ex'd.)

Q.—Is it not usual to allow them what the agent would charge, do not they get just as good rates? A.—I do not know of any director getting any commission or rebate of any kind.

Q.—Are you insured? A.—No, neither in the Northern Life nor any other company.

Q.—You never got a rebate? A.—No.

Q.—And if any of the other persons got any preferential terms you did not know it? A.—I did not know it. If anybody got anything that was improper I did not know it, although I do not think it would be improper if a director or anybody else was insuring under those circumstances at the organization of the company if he got the same commission an agent would have got.

Q.—You think it would be perfectly fair so long as the company got what it would get for a stranger? A.—Exactly, my morality would not be shocked at a thing of that kind at all.

Q.—It seems to be a phase of business that is applicable to insurance companies almost solely because there would seem to be no reason where business comes into the head office that the company should not get the full premium? A.—Exactly, I do not know why they should not if they themselves get the business, just the same as if a loan company gets a loan at its head office, but if a man went into an insurance company and said, "You won't have to pay any commission if you insure me, and if you will allow me the same commission as your agent is allowed I will insure with you," I do not think there would be anything particularly wrong in a company letting him have the commission.

Q.—That seems to be a common practice? A.—I believe it is.

Q.—You say no premium was charged on that stock? A.—No.

Q.—Have you ever paid in any premium on the stock since? A.—I have paid in no premium, I just paid ten per cent. on my stock.

Q.—The fact then being that in the case of your company you considered it better to make the payment for getting the company well started and paying the cost and paying it right out of the capital and calling it impairment of capital and not putting it up in some other form? A.—I thought it was unavoidable, I would rather not have had any impairment of capital, but I looked upon it as the only way in which it could be done.

Q.—And the result has been that since 1897 you have had impairment of capital? A.—Yes.

Q.—And can you give me the figures or shall I get it from Mr. Milne? A.—Get it from Mr. Milne.

Q.—You can say this, that while there was impairment down to 1902 according to your showing the impairment is not being decreased? A.—It is being decreased, and I would not be at all surprised if at the present moment they are out of impairment, because of another matter which will probably be referred to later on.

Q.—What particular matter are you referring to? A.—I was referring to that by-law.

Q.—You have not treated, I understand agents' balances and so on as assets either in your books? A.—I would prefer Mr. Milne should answer all those questions. I am not as well posted on all these details.

Q.—Then the persons named were to be Provisional Directors and they were to open stock books, procure subscriptions, make calls, and receive payments and shall deposit in a chartered bank all moneys received on account of the stock subscribed or otherwise received on account of the company; was that done? A.—I do not know whether they deposited in a chartered bank or deposited in the Dominion Savings; my impression is they deposited in the Dominion Savings.

Q.—What is the Dominion Savings? A.—It is a Loan Company.

Q.—Are any of the directors of the Northern Life Assurance Company connected with the loan company? A.—Yes.

Q.—What one? A.—I am President of the Dominion Savings, John Ferguson is a director of the Dominion Savings, John Purdom is and Francis Love is. I think that is all.

Q.—You think that the money was deposited not to the credit of a chartered bank but to the credit of the Dominion Savings Company? A.—I think so.

Q.—Why was it done in that way? A.—I do not know as there was any particular reason for it, except that they would probably get more interest for it.

Q.—Has the deposit account of the company always been kept with the Dominion Company? A.—They keep two accounts, they keep an account

with the Dominion Savings and an account with the Bank of Toronto, and up in Winnipeg they keep one with the Union, and I think there is another one in Ottawa.

Q.—I mean at London? A.—At the head office there is the Bank of Toronto for general account, and there is an account in the Dominion Savings where it is not likely to be drawn out so suddenly.

Q.—Might the Dominion Savings be regarded as a savings account and the other a general account? A.—Yes.

Q.—Do you issue cheques on the Dominion Savings account? A.—Yes.

Q.—And you are paid interest on it? A.—Yes.

Q.—What rate of interest? A.—4 per cent.

Q.—On monthly balances? A.—I think it is on the monthly balances, the minimum monthly balance.

Q.—What rate are you paid in the bank? A.—I do not think we get any, it is to our advantage to get as much receiving interest as possible.

Q.—Was the money that was received at the time of the organization of the company kept in that account until the company was fully organized and licensed to do business? A.—I do not remember that.

Q.—I suppose that the Dominion Company, of which you are the President, was looking for all the money it could get on deposit? A.—Yes.

Q.—It was paying four per cent., was that the rate your company was giving to any depositors that would deposit? A.—No, most of their money is 3 and 3½ and 4 is the highest they pay.

Q.—No person gets any more than 4? A.—No, they gave the Northern Life the best terms they would give to any one.

Q.—Has the same rate continued from that day to this? A.—Yes.

Q.—There will be considerable money there? A.—Sometimes there are very good balances and sometimes much less; it has varied a great deal.

Q.—Are there any other companies that your Northern Life Assurance Company has had business dealings with that there are common members of the Boards of Directors? A.—I do not think there is another company.

Q.—That is the only company you know of? A.—Yes.

Q.—That is the only company you know of that has any business dealings either in the way of depositing money, sales on securities or purchase of securities? A.—We did buy the debentures of the Huron & Erie, but none of the Huron & Erie Directors are directors of the Northern Life. I am connected with the Canada Trust Company, which is a company connected with the Huron & Erie. It was not at the time we bought the debentures. The Canada Trust Company was not in existence.

Q.—You were a shareholder in the Huron & Erie then? A.—No, not in any way whatever except they were friendly to us and we friendly to them, and I regarded them as one of the safest, if not the very safest in Canada.

Q.—Is there any particular significance on the word friendship? A.—No, except as between, say Toronto and London, I would prefer giving it to London than to Toronto. If I thought there was a loan company whose debentures would be accepted by the Government we would give it to London.

Q.—The investments in that company have been profitable and safe investments? A.—Yes, absolutely safe.

Q.—Section 5 of the Act provides: (Reads) Taking the last part of that section first, is that the only provision for election of directors that affects your company? A.—It is the only one I know of.

Q.—So that all your directors must be shareholders? A.—Yes.

Q.—There is no provision at all for policyholders' directors? A.—No, I think not.

Q.—And each shareholder must hold 50 shares? A.—Yes, with $500 paid thereon.

Q.—That is as I understand, in your company there is only one call ever been made in the nature of a regular call? A.—Yes, and I am not absolutely positive that a call ever was made.

Q.—But there was ten per cent. paid? A.—Yes.

Q.—And that was treated as a call? A.—I think there was a call.

Q.—There has never been a call to bring it up to 20 per cent.? A.—There has never been a second call.

Q.—But shareholders have paid in money on capital? A.—Yes, in excess of the ten per cent. but not under a call.

Q.—The section provides that you must have $300,000 of the capital stock of the company subscribed and ten per cent. paid into some charter-

ed bank in Canada, was that section disregarded? A.—I think they made an arrangeemnt to send the Huron & Erie debentures down to the Department of Insurance instead, although I am not sure that was disregarded, I do not know whether it was or not.

Q.—I am asking you now about the calling of the general meeting, as to the calling of a meeting of the shareholders at which they could elect the directors, that is not making the deposit at Ottawa? A.—I do not from memory recollect whether the money was deposited in a chartered bank for that purpose or not; I cannot in the meantime recall it.

Q.—Section 6 (reads). Have you ever had to consider, that is yourself or your company, ever had to consider who is the holder of the policy within the meaning of the section, whether it is the assured or the beneficiary? A.—No, we never have.

Q.—If the beneficiary happens to hold the policy— A.—No, we have never considered that at all.

Q.—Have you ever had any discussion at all about the rights of policyholders under this section? A.—No, we never had a policyholder come to a meeting and never discussed it ourselves.

Q.—That section I suppose was copied from some other charter? A.—Copied from the North American I presume.

Q.—It is a form at least we have found elsewhere? A.—I fancy if you compare it with the North American Act you will find it almost word for word.

Q.—Can you suggest any reason why the shareholder should not have a voice in the increase of the capital stock? A.—I do not know off-handed, I fancy they are in two different classes, the policyholders are one class and the shareholders another class, and if the policyholders have taken upon themselves the burden of organizing the company and managing it, and taking the risk of loss, and carrying out contracts, I think they would have more right to say that the capital should be increased than a policyholder.

Q.—On the other hand the policyholder has come in and he has paid premiums to the company with the conditions as he has found them as to capital and what dividends can be paid and so on, and then he is given the promise in his policy and he pays money for it to get a right to share in the profits of the company, is it equitable or right that the shareholders should be able to increase that stock which might be an act entirely in their own interests and against the interests of the policyholder? A.—On the other hand they could not increase their capital without making his policy to that extent at least safer.

Q.—Still they may do him good and still be against his will you know? A.—They might do him well and do themselves more good, you think?

Q.—Yes? A,—Yes, that is quite possible, but I think there are two separate interests, the policyholder and the shareholder, and I think where a contract is made with a policyholder and that contract is carried out literally with him, he would not have any cause to complain if the shareholder thought it was in the interest of the company and of the shareholder to increase the capital.

Q.—But you must not forget policies are not contracts that are read as you and I would read a contract if we were going to enter into one? A.—I do not think one man out of fifty ever reads his policy.

Q.—He goes in there on the faith of the company using him properly? A.—Yes, and for that very reason I think any director of an insurance company would listen to any argument of a policyholder, and would try to do justice towards him as well as himself.

Q.—But he would have himself—l am not talking of the Northern, eliminate the Northern? A.—Yes.

Q.—Then you can imagine there might be trouble? A.—There might be some who would do that.

Q.—It does not seem to me to be based on any sound reason why there should be that one exception from the policyholder's right to vote as he pleases with regard to the conduct of the company? A.—Take a bank for instance, they have deposits of a great many more millions in their keeping than they have capital, and yet what hand has a depositor in the management?

Q.—He can walk in and issue a cheque and take out his money any minute? A.—He might not for a year, he may have a fixed deposit.

Q.—He has his choice to-day inside of an hour to say which bank he will do business with and he cannot do that with an insurance company, because if he is in an insurance com-

pany he cannot get out without loss? A.—I am giving you the argument just now, I have not considered the question. Another thing about it that where there are participating policyholders that is given as an extra reason why they should take out the policy, they get a chance to get the amount named in the policy together with profits added to it. They are willing to take that whatever it may be, they do not when taking it consider that as a certain fixed sum.

Q.—You would think if you would see an agent turning up their estimated profits and showing they are more than some other company who has been doing business for fifty years, while the premiums are less the estimated profits are higher? A.—You could get that same thing on a change of venue as to the number of witnesses, I remember having an affidavit to a certain number of witnesses, and the solicitor on the other side wanted an adjournment till he could get another affidavit to get more.

Q.—The section is one that is common to many other companies? A.—I think that, and I have seen it in the papers discussed, but so far as the policyholders are concerned not one single one has ever applied to take any part in the management of the company during the number of years we have been in existence.

Q.—How is the capital stock in your company held? A.—It is fairly well distributed.

Q.—Is there any control? A.—The largest amount paid in I think is paid in by Mr. Matthew Wilson. You ask is there any control? I fancy if all the directors were to stick together as against all outsiders they could control the stock of the company.

Q.—That probably is not a result that could be accomplished very long? A.—No, I do not think so.

Q.—There is no common tie to the directors any more than being directors? A.—No.

Q.—Mr. Wilson does not control all the capital? A.—No, but he has a very considerable substantial interest.

Q.—Then there is a provision that the company shall not commence the business of insurance until $62,500 of capital stock has been paid in in cash into the hands of the company to be appropriated only for the purposes of the company under this Act; of course at that point there is nothing at all about a chartered bank? A.—Well, that was the investment made in the Huron & Erie debentures.

Q.—And those debentures were taken down to Ottawa for the purpose of making the Government deposit? A.—Yes.

Q.—Can you say now that the shareholders had paid their ten per cent. in in cash or was the money raised? A.—No, I think it was paid in at that time.

Q.—By each shareholder? A.—By a large number.

Q.—Had all of them paid in? A.—We have a good deal more than that now, it is $213,000 and something altogether that was paid in, they did not cease getting money paid in as soon as we commenced business, but Mr. Caldwell and Mr. Casey kept on I think getting more.

Q.—Then there is section 11 as to the investment of funds ? A.—Yes.

Q.—Do you regard that section as being of any use to you since the section 50 of the Insurance Act was passed? A.—I fancy we are governed by the general Act as to that.

Q.—You would say the general Act is broader than the particular provision in your Act? A.—Yes, I fancy we have a right to the general Act.

Q.—Has your company kept within the provisions of the general Act in its investments? A.—We did except in one instance, we bought a few thousand dollars of C. P. R. stock and Mr. Fitzgerald objected to it and we sold it.

Q.—That must have been in 1903? A.—I do not know what year it was.

MR. MILNE: I think it was in 1903.

WITNESS: We sold it at a slight profit, that is the only illegal investment I know of. I was very much tempted once to make an illegal investment but we did not.

Q.—You invested in C. P. R. stock, was the question of the legality of the investment considered before the investment was made in that case? A.—No, we thought it was legal.

Q.—I suppose it may fairly be said that a great many persons without going into the technical wording of the Act might consider there was some reason— A.—It was not considered in our case at all.

Q.—What was the extent of your purchase of C. P. R. shares? A.—$5,000, it was a small investment.

49th day, London, June 28, 1906.

Northern Life Assurance Co.
(T. H. Purdom, Ex'd.)

Q.—Is that the only investment that has ever been made? That is the only investment that was ever made that was beyond our powers.

Q.—How do you say it was brought to your attention that that was improper? A.—By Mr. Fitzgerald, or rather the objection was to Mr. Milne and he told me about it.

Q.—Was it taken off the books immediately on it being brought to your attention? A.—As soon as we could sell it on a profit.

MR. MILNE: We sold it the next year? A.—It was only a small profit that we made.

MR. TILLEY: Has there been to your knowledge any transaction with the directors of the Northern Company personally A.—I do not know of a single one.

Q.—Or to any of the officers of the company A.—Not one—that is right is it not, Mr. Milne?

MR. MILNE: I think that is right.

MR. TILLEY: Any loans without security? A.—Not one. Every transaction that has gone through has been bone fide and the security believed to be good, and I believe the investments they had are worth 100 cents on the dollar, and whatever it costs to get them; that is I think we could re-place them at any time.

Q.—That record as to the C. P. R.? A.—Mr. Milne can get that for you.

Q.—Probably I can refer to all that I need to—

JUDGE MacTAVISH: It appears in the published statement at the end of 1903; you had $5,000 of Canadian Pacific Railway stock, which appears to have cost you $6,237.50? A.—Yes.

MR. TILLEY: And your answer in your return is just the same as you have given it now, "As soon as we discovered it was not we sold it at a fair profit." Have you had any considerable loss on any class of security? A.—We made a loss on British America and Western Fire Insurance stock.

Q.—That is the time that that stock was cut in two? A.—Yes, after the Baltimore fire. We had $20,000, $10,000 in each, and that was cut into $5,000 each.

Q.—You lost $10,000 by that? A.—Yes.

Q.—Assuming it before and after to be worth par? A.—Yes, I am speaking in round numbers when I say that.

Q.—Has that stock been sold? A.—No, we still have the balance of it, we have our half still.

Q.—You are sure you have the half? A.—I do not know that part did not go in the earthquake.

Q.—Do you regard fire insurance as a proper investment for a life insurance company? A.—No.

Q.—Or for trust funds? A.—No.

Q.—That is if you had never had the money there you would not have put it there with your knowledge now? A.—I do not know that I would of my own judgment ever have put it there. I never did consider fire insurance stocks any too safe an investment. I always considered there was an extra risk.

Q.—In those particular stocks there has been exceptional hazard? A.—Yes, in an especially acute form because what happened could not have been by any means anticipated.

Q.—You have mortgages on real estate? A.—Yes.

Q.—Is that the chief? A.—That is our chief mode of investment.

Q.—How have you found that as to interest bearing? A.—We find it the best we have, there is nothing we have as good as mortgages.

Q.—Where are your investments made? A.—Mostly in this district locally, not entirely.

Q.—In what Provinces of the Dominion do you carry on life insurance? A.—In Ontario, Quebec, Manitoba, and we were in the Territories, we are not in British Columbia; and in Nova Scotia and New Brunswick.

Q.—Have you ever loaned money in any Province except Ontario? A.—Yes, we loaned some in Manitoba and have one loan in Alberta and one at Calgary.

Q.—Are you developing the loaning business in Manitoba now? A.—Not to any extent.

Q.—Have you stopped loaning as much as you did? A.—We are just keeping on; we have a first class real estate agent named H. M. Willman in Winnipeg and if he recommends a mortgage in Winnipeg we take it because we get 7 per cent. there, and we can only get 5½ per cent. here, and sometimes only 5.

Q.—Are the loans you make in Winnipeg small loans? A.—$2,000 or $3,000.

Q.—How is Mr. Willman paid? A.—By commission; and if we get him to do our work for us we will have

49th day, London, June 28, 1906.

Northern Life Assurance Co.
(T. H. Purdom, Ex'd.)

to pay him something for general work.

Q.—That is you pay him a certain rate of commission on the loan business? A.—Yes, 1 per cent.

Q.—And if you employ him to do any inspection for you— A.—That is what I mean we would have to pay him extra for it.

Q.—Is he your insurance agent there? A.—No, he was our cashier for several years and he went up to be cashier for the Northern Life at Winnipeg and made considerable money himself, and then he branched out from insurance into real estate and loan; and we have found him to be a very reliable and good man; I don't know a better or a safer one.

Q.—Has policy writing been carried on in conjunction with your loaning money? A.—Sometimes, but loaning and insuring are two separate things.

Q.—You bring them together sometimes? A.—Occasionally they are brought together, but they are considered separately.

Q.—Are they kept separate as to commission, does the same man get a commission on each? A.—The same men will sometimes get a commission on both.

MR. MILNE: But a smaller commission on the loan.

MR. TILLEY: Than he would usually get.

MR. MILNE: Yes.

MR. TILLEY: Q.—The ordinary commission on the insurance? A.—Yes.

Q.—Is that a safe way of doing business? A.—It is safe if you do not mix the two together.

Q.—Can you say they are considered each by itself when they are combined at the Winnipeg end? A.—We do not do any business like that in Winnipeg; the only place we are doing business like that is in Toronto.

Q.—If they are combined in Toronto can you say they are separate merely because at this end you consider them separately? A.—We get a valuation; before the loan is made we have a valuation of an independent man not of the agent. We do not trust the agent, that is as to the loan.

Q.—You do not depend on the agent? A.—We have what he recommends approved or disapproved by a man entirely independent of him, and who is paid separately.

Q.—Who pays the valuation fee? A.—We do, we lose that if we do not accept it. The man who checks his work is simply paid by us a fee.

Q.—That is universally done? A.—That is the rule; or if Mr. Milne went down himself and saw it we would not pay another man, or someone we could trust, and someone we felt was giving us an independent valuation.

Q.—Have you any foreign branches outside of Canada? A.—No.

Q.—So that you have never deposited any money for foreign agencies? A.—No, all our assets are here. Talking about the difference between the interest here and in Winnipeg, I think I would as soon loan money here at 5½ as at 6½ and 7 in Winnipeg, because there is more risk the further you get away from home. It is not under your own eye, and if it gets on your hands you do not know how it would be attended to and how long it would take to get away from it.

Q.—If you have that view it is not much use to ask you whether it is advisable to push Manitoba too hard, you push the local business here as hard as you can? A.—Yes; if he sends us a good loan I think it is all right, but I would not like to go to work in Winnipeg at the present time and slash around loaning money. I was up there and they are very prosperous, and that is the time to be cautious.

Q.—You loan your money in Ontario on mortgages on farms? A.—No, I think the majority of our loans are in the City, and some farms, and some in Toronto.

Q.—Mixed? A.—Yes, there is no rule I fancy.

Q.—Do you seek to keep your loans in small amounts? A.—We try not to have large loans; if a large loan goes wrong it goes wrong very fast.

Q.—You prefer a loan of $2,000 to $5,000? A.—I would rather have that than a loan of $10,000 or $20,000 even if it was apparently safe, that is with our means; we are not a large company yet.

Q.—You are growing? A.—Yes.

Q.—Have you any Head Office premises? A.—No, we rent from the Masonic Temple Co.

Q.—You have no properties except held under mortgages? A.—We have no property under mortgage that has

49th day, London, June 28, 1906.

come on our hands, it is all live mortgages.

Q.—Interest kept well up? A.—Yes, we have no properties that proceedings have been taken on or thought of.

Q.—Section 15 reads this way (reads); that is another usual provision? A.—Yes, that is one of the rocks agreed we have not reached yet.

Q.—Any discussion of that should be with Mr. Milne? A.—Yes, and besides we have not come to the point yet.

Q.—I shall probably ask him how he is carrying on the work in the office anticipating that? A.—He will know all about that.

Q.—Then there is the power to charge losses to participating policyholders in case there is loss afterwards sustained? A.—Yes.

Q.—Section 17 provides (reads). That is a usual form where the power is kept within the Directors? A.—Yes.

Q.—Have you any idea of your own as you have studied insurance, as to the propriety of requiring a surrender value to be allowed to a man as soon as two years have gone by? A.—My opinion would be it is too soon.

Q.—That is to say that the company has not quite recovered the expense that it is put to on the policy? A.—They are in debt for that policy still.

Q.—And if the idea of giving a surrender value is that the company has some of this man's money that it should return to him, then it should not be made obligatory until it is distinctly ascertained that there is that fund? A.—I think that is right.

Q.—That would be after how many years according to your opinion as an actuary? A.—I am not a very good actuary, but I am told not less than five years; then actuaries differ I believe.

Adjourned at 6 P.M., June 28th, to 9 A.M., June 29th, at the same place.

FIFTIETH DAY.

MORNING SESSION.

Resumed at the Court House, London, Friday, June 29th 1906, at 9 a.m.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

MR. TILLEY: I would suggest, your honours, that we might have Mr. Milne sworn now and then I can take the evidence from either indifferently as we go along and collect it under subject matter, rather than under witnesses. Mr. Milne is the Manager of the Company.

JOHN MILNE, Sworn.

The examination of Mr. Purdom continued.

MR. TILLEY: Mr. Purdom, I was referring yesterday to members of the Board and I see that you have given a return to the Commission setting out the names of all the Directors from the time the company was formed to date? A.—Yes.

Q.—For convenient reference to names I will put in that list of Directors as Exhibit 311. Exhibit 310 being the individual cards of the London Life Insurance Company, which are to be supplied.

Q.—Then, Mr. Purdom, you spoke about the loan or deposit with the Dominion Savings and Loan Company yesterday? A.—Yes.

Q.—Is the book here showing that deposit with the Dominion Savings? A.—(Bank books produced.)

MR. MILNE: The first Dominion Savings Bank Book must, I think, have been burned. We were burned out and I have never been able to find it since.

Q.—You think then you have given me all the books that show the state of that account?

MR. MILNE: With the exception of that first one.

Q.—Now, Mr. Purdom, I notice from the minutes that you commenced depositing with the Dominion Savings Company when the Insurance Company was first formed? A.—Yes.

Q.—And you had practically all your money deposited with the Loan Company? A.—I think it was. I was trying to remember last night if we had an account with the bank and I cannot see it; that is and be certain.

Q.—On February 23rd, 1897, that would be soon after your stock was called up and the calls paid? A.—That would be when we organized, wasn't it?

Q.—Soon after you organized. You made calls and got payments on your stock in 1896? A.—Yes.

Q.—Why was there the delay from 1894 when the Act was passed until

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

1896? A.—They kept getting stock subscribed.

Q.—Did it take all that time to get the stock subscribed? A.—I fancy it did, we were increasing the amount and we had a certain amount of it subscribed at that time and Mr. Caldwell was constantly employed getting it increased. We were more engaged getting the amount of subscribed and paid up stock increased than we were in doing any business.

Q.—After you got the calls paid in, out of $100,000 in round figures, you invested $66,000 in Huron and Erie debentures? A.—That is right.

Q.—Don't you think that was putting a good deal of your money in one security? A.—No, the Huron and Erie is as good as the Bank of England.

Q.—I do not know, if I had my choice, which I would take? A.—I would just as soon have the Huron and Erie as the Bank of England myself.

Q.—Isn't that just in the line you spoke of yesterday in your mortgage loans, that you preferred to have them scattered? A.—No, not if you know a thing is absolutely safe. Why should a person be afraid of a thing they know to be good?

Q.—That is basing an investment on your own individual knowledge and belief in the company? A.—Yes.

Q.—Isn't that the means by which a great many companies have come to wreck? A.—Yes, and I think it is also the means by which a great many of them have ben saved from loss.

Q.—There is no particular good to the company in having all that money in one company? A.—No, there wasn't any particular advantage except that according to the regulations of the Insurance Department, the Huron and Erie was the only loan company in London that we could invest in. They have regulations that require the stock to be worth more than 125. They have certain regulations laid down by the Insurance Department and I think it was the only company that met the requirements.

Q.—That regulation does not exist now? A.—I don't know whether it does or not. I don't think the Act requires it. I think it is a regulation of the Department.

Q.—That is for depositing securities with the Department? A.—Yes, it is not the Act.

Q.—I thought you were speaking of investment powers. Then you commenced making deposits with the Dominion Savings and Loan Company? A.—Yes.

Q.—Apparently the first deposit was about $27,206 that I can find? A.—Yes.

Q.—But in these books it commences in 1899. What is the meaning ot Account No. 3?

MR. MILNE: I can answer that. No. 3 is the open account from which we chequed out.

Q.—That would be the Dominion Savings number that is given to your account? (Mr. Milne answers until a change is indicated.)

A.—Yes.

Q.—It is not your description of the account? A.—No.

Q.—Then No. 9? A.—Is the Dominion Savings special account. They gave it that number.

Q.—Are those the only two accounts that your company has had with the Dominion Savings? A.—The only two.

Q.—Is it the only two investments, does it represent all the transactions you had with them? A.—It represents all the transactions.

Q.—Then in 1899, Account No. 9, in the book that we have commenced with, December 30th, $79,590.60 of a balance? A.—That included $75,000 that was set apart by the Board. At that time we had no regular arrangement by which we could get mortgages hunted up, and that was secured at 4 per cent. for three years. That was a stipulation the same as it was a debenture; hold that for three years and then draw out and by that time we would be in shape to get mortgages sufficient to take it up and it was taken up.

Q.—Now, do I understand you to say that that arrangement applied to the whole Account No. 9? A.—No, it only applied to that particular sum at that time, $75,000.

Q.—From what date did that three year arrangement commence to run? A.—I think that was in 1898.

Q.—Then it ran three years from 1898 and during the whole of that time did you have $75,000 there? A.—We had $75,000 there, yes.

Q.—In 1901 that arrangement came to an end? A.—Yes, it was gradually drawn out and finally entirely drawn out for mortgages and so forth.

Q.—It was renewed in 1901 for two years, I think? A.—I think not.

MR. PURDOM: I think you are right, Mr. Tilley; I think it was renewed.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—I do not want to be wrong about it. On April 15th, 1901, "Mr. Ferguson moved, seconded by Mr. Love, that the arrangement for the deposit of $75,000 with the Dominion Savings Investment Society, bearing interest at 4 per cent., payable half yearly be extended for a period of two years."

(Mr. Milne answers.) A.—Oh, that would be correct then.

Q.—Then after that resolution it would remain there for two years longer? A.—Yes.

Q.—That would bring it to 1903? A.—Yes, apparently.

Q.—What was done then? A.—It was gradually drawn out.

Q.—And placed in mortgages? A. —Yes.

MR. PURDOM: Wasn't part of it drawn out before? We said we didn't care if they could get mortgages, to insist on the agreement. Part of it was drawn out before that.

Q.—What was the precise arrangement that was made with the Dominion Savings and Investment Company. Was it committed to writing?

(MR. MILNE answers.) A.—I don't think it was. I think it was just an arrangement with the Manager on the basis of that resolution, he knowing the basis of that resolution.

Q.—There probably would be some other resolutions referring to it, of which we have not copies, because some of the books were destroyed by fire? A.—One Minute Book was destroyed by fire. There might possibly be a resolution there.

Q.—Tell me then whether you are confident now that there was no written arrangement either by letter or otherwise, with the Dominion Savings Company? A.—There might have been the Manager's acknowledgment when I wrote him the resolution. He might have acknowledged it and that might be on file somewhere. That might be found, if some of our ledgers were not burnt.

Q.—Could you have some person send word to your office to try and look that up? A.—Yes.

Q.—Was there any arrangement that you would have security with respect to that sum? A.—No.

Q.—You would rank the same as all other depositors of money with regard to that account if there was any difficulty with the Dominion Savings Company? A.—Yes.

Q.—And you say it remained there for at least 5 years, amounting to $75,000? A.—I would not say that the whole $75,000 was there for that time.

Q.—But in a general way there was supposed to be a $75,000 deposit there, or substantially that amount during that time? A.—Yes.

Q.—Then were the Dominion Savings Company issuing debentures during that time? A.—I don't know.

MR. PURDOM: Oh yes.

Q.—What rate of interest did their debentures pay?

(MR. PURDOM answers.) They were issuing debentures at 4 per cent.

Q.—Saleable at par? A.—Yes, they were selling them right along at par. Never sold any under par.

Q.—Were they selling debentures during the whole of that period? A. —Yes.

Q.—For the different dates, maturing at different times? A.—Yes.

Q.—One, two and three years? A. —I don't know of any for one or two years. It is three and five years.

Q.—Then, if you were making a transaction with the Dominion Savings Company in 1901 for two years and in 1898 for three years, why didn't the company take debentures paying a 4 per cent. interest? A.—We didn't suppose it made any difference.

Q.—Were the debentures not secured in any way? A.—No, they were just under the Act.

Q.—Ordinary promises to pay? A. —That is all.

Q.—It put it in a shape that the Dominion Savings would show $75,000 as a deposit instead of being a debenture debt? A.—That is all the difference.

Q.—I suppose that was considered at the time? A.—I don't konw that it was. I don't think it was regarded as a matter of any consequence whether it was on deposit or a debenture, and that at any time had the Northern wanted the money they could have drawn it, we would have let them draw it.

Q.—Why would you have let them draw it? A.—We would not ask them to go and borrow money from the bank if they had a deposit like that.

Q.—The arrangement was for three years? A.—But as a matter of fact we let them draw before the two years expired and I think the most of it was drawn out before the five years were up.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—Then if you had had debentures of the company you would have been able to sell them, I suppose, or borrow money on them? A.—Oh yes.

Q.—Carry it on just as well from the Northern Insurance Company's standpoint? A.—No, I didn't think so. They couldn't borrow the money at 4 per cent. in the bank, if they had taken the money from us instead of from the bank all that the Northern would lose would be the 4 per cent.

Q.—They could have sold the debentures at par? A.—Possibly they could.

A.—Or part of them? A.—Or part of them, if they had wanted to, but you cannot go to a bank and borrow at 4 per cent., no bank that I know of.

Q.—Well, I do not know that I can tell you where to go for that rate. Besides that account bearing 4 per cent. interest, the Company had another account? A.—Yes, they had a general account.

Q.—What interest did it bear? A. —I think it bore 4 per cent. on the minimum monthly balance.

MR. MILNE: Four per cent., all our accounts with the Dominion are at 4 per cent. on the minimum monthly balance.

Q.—How is it that this account No. 9 has various amounts of deposits and withdrawals? (Mr. Milne answers until a change is indicated.) A.—We did withdraw. There is 72 and there is 73 thousand dollars. If we had a mortgage we drew out, notwithstanding that arrangement, it was understood with the Dominion that if we required the money we would be at liberty to withdraw it by giving notice.

Q.—On December 31st, 1900, it was up to $83,121.40? A.—Yes.

Q.—On the same day it came down to $75,000. I suppose that was a transaction at the end of the year in order to make that the special deposit? A.—Here was a deposit in October. Then the interest was added. There is a deposit of the interest which brought that up to $83,000 and then we withdrew that $8,000. I think that $8,000 was put in some mortgage at that time. We withdrew it to bring it down to the $75,000.

Q.—Then the No. 9 account from June 30th is down by these withdrawals to $41,343? A.—Yes.

Q.—Then on November 30th, 1903, it was down to $33,000. For a short time it was about $8,000? A.—Finally exhausted or almost so.

Q.—In 1904 you apparently commenced depositing again to that account? A.—Yes, well that was not under that special arrangement but any extra money we had we deposited it, because we could get a little more interest than if kept in an open account.

Q.—You had 13 to 15 thousand dollars, along about that amount in 1903, and in October, 1904, up to $22,000? A.—Yes.

Q.—In December, 1904, $27,000? A.—I think at the end of the year it was somewhere about $39,000.

Q.—May, 1905, $30,000, and it remained at about $30,000 right through to the end of that book? A.—Yes.

Q.—Then it goes into a second book No. 9 and it remains at $35,000 and up to $40,000 to the end of that year and then in 1906 it is in February $39,000, and it has continued from $40,000 to $43,000 from that time until now? A.—Yes.

Q.—On May 31st, being the last date in the book, it was $45,103.60? A.—Yes.

Q.—And there have been no entries made since? A.—We have got mortgages that are going out for about $12,000 that will draw out all that. Although No. 9 is a special account you will see it is a sort of floating account notwithstanding. We drew from it regularly.

Q.—Now Account No. 3, so far as the books you have handed me, indicates that the first of the books comemnced in January, 1900? A.—Yes.

Q.—It was then about $27,470 on March 22nd; then it ran up to over $30,000 and continued about that figure until May, 1900, and then it dropped down at different times to about $23,000 in June and then continued from $23,000 to $27,000 at the end of that year, being at about $30,000 at the end of December. Then in 1901 it continued at about $30,000 until June, when it got down to about $17,000. Then it continued about 15, 16 or $17,000 right through until September, when it got up to $20,000. That was the end of that book. It came into the next book about 20 and remained between that and 25 until September 28th, when $20,000 was taken out and the deposit dropped down to $2,015. It continued from $2,000

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

to about $7,000 until December 31st when it was $16,000 and then it continued from $16,000 to about $27,000. Different amounts in April and May and in June it got up to $30,000; July $35,000; May up to $38,000; September up to $42,000. And then in November by some withdrawals in that month it went back to $24,000 and remained about that amount till December when it dropped to $7,758 and remained at about 7 to $8,000 until December 10th, when it became $2,300. Then it varied somewhat and was a very uncertain balance until the end of that month when it got back to about $7,000 having been at one time as low as $800, in fact a debit balance in one place of $27, and then it continued at about $10,000 through 1903, in March being up to $15,000 and in April back to $9,000. In May up to $15,000 and as low as $9,000. In June and July it was $7,000 and $8,000, then $26,000, then back to $7,000, $8,000 and $10,000, continued from about $7,000 to $12,000 during the rest of that book? A.—The variations arising from mortgages being paid in.

Q.—The last book, 1903, it was about $5,000 to $7,000 during September and November; $7,000 to $8,000 in December. Then it jumped up to $27,000 again? A.—There was a $25,000 deposit.

Q.—Then it continued for between $20,000 and $30,000 and ran along at about $30,000 to $35,000 until October, 1904, when it dropped down to about $25,000. It continued from $23,000 to $25,000 until about the end of November, 1904, and then it continued from $14,000 to $16,000 on through to August, 1905, I should say, when it got down to $5,000 in September. Since that date it seems to be more irregular in amount? A.—Sometimes low.

Q.—But always a substantial balance, sometimes $17,000 to $20,000 and as much as $40,000 at one time and continued at about that amount for some time and then back to about $30,000? A.—And down to about $15,000.

MR. LANGMUIR: Both accounts seem to be active accounts.

MR. TILLEY: Not very active; the withdrawals in the first were more towards the end.

MR. PURDOM answers: It was a fixture for the first three years and then some of the directors preferred not to have so large a sum there and they wanted to make other investments out of it and it was through that that the investments were made in British American and Western. It would have been better to have left it there. They took it out and did worse with it.

Q.—Your investment in British America came about through a person that got you to organize this company, the North American Life? A.—Oh, no, Mr. Morrison hadn't anything to do with it at all. He hadn't anything to do with our buying that British America stock. That was done by the directors. Thomas Long was a director. He was on our Board and he was a member of the Board of the British. But John Morrison was not on the Board of the Northern at that time at all.

Q.—I suppose it must be the fact that during the time these large sums of money were with the Dominion Savings, you could have got better investments yielding a better rate of interest? A.—Possibly you could.

Q.—Real estate loans? A.—You might have got them, but on the other hand there was a time there when real estate investments were very low.

Q.—Isn't it a fact that this deposit was a substantial accommodation to the Dominion Savings Company? A.—It was that much of a deposit but I don't know that it was any great accommodation to them. They were paying the very highest rate they paid to anybody for it.

Q.—That shows they were anxious to get it? A.—Well, we were selling the debentures in Scotland.

Q.—And you were needing the money at that time? A.—I don't know that we were needing it any more then than at any other time.

Q.—Did the Dominion Savings stock or debentures become of less value during any portion of that time? A.—I don't know that they did.

Q.—Was there not a time when that company's stock or debentures were not worth quite as much as they had been? A.—About 15 years ago the Dominion had difficulty through its Manager and since then, of course, it has been getting better every year.

Q.—In the year 1898 and 1897 and in the year 1896, even, would you say then that that was a proper place to leave these large sums of money? A.—Yes, quite so.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—You think that it was? A.—Yes.

Q.—You think it was better for the company to leave it there at 4 per cent. than invest it in real estate mortgages at 5 or 6 per cent.? A.—I don't think with the hands the company had and its means of making investments, that in the long run it would have made much more. There would have been the expense of handling the mortgages at 5 per cent. and there would only have been a fraction of one per cent. even if they made no loss. Then when they did invest in these stocks I think they lost more in that one transaction than they would in years by leaving it there.

Q.—You can always refer to some transaction such as that investment, in fire insurance stocks that show that even the securities that are regarded as proper under the Act, are not the very best, but is it not the fact that the insurance company's monies were being at that time used in a way that was a substantial accommodation to the Dominion Savings Company? A.—No, I don't think so. The Dominion Savings Society could have got the money from other sources if they wanted it.

Q.—They could have got the money from other sources but they could not have got that money from any other source and that made so much difference? A.—Not that particular money.

Q.—That was so much additional for them? A.—I suppose that is the same with any deposit, it is always an additional amount to what you have otherwise.

Q.—They were getting the money at 4 per cent.? A.—Yes, I don't know that they were getting all they could, they were getting all they wanted. I don't believe in very large loan companies or large insurance companies I would rather be connected with a reasonable sized loan company and a reasonable sized insurance company.

Q.—Does it strike one that at that time you believed in large deposits in loan companies? A.—I wouldn't have any objection to one deposit being large, because there is less trouble in looking after it, and you know if you are going to be called on for any particular part of it, when it is going to be.

Q.—You could, at that time, have invested that money or deposited it with other companies equally as safe and got the same rate? A.—I fancy I could.

Q.—You could have divided the risk? A.—Yes, I suppose we could have divided the risk.

Q.—And got the same return? A.—Yes, or taken probably three risks where one would do the same thing.

Q.—Your principle that you laid down yesterday for real estate was to divide the risk. Do you change from that when you deposit money? A.—If you know a deposit is absolutely safe in any particular bank you may as well put it all in as put part in one and part in another, that you wouldn't know as much about. I knew this to be safe.

Q.—That brings us back to the same question, that you were acting on your personal belief in your own company, which to a certain extent is your own child of which you are proud, there is no company as good as Mr. Purdom's company? A.—Well, I am quite willing to admit that it is all right.

MR. LANGMUIR: What is the stock selling for? A.—The last sale was 72.

Q.—Not par? A.—It has not sold at par since the difficulty fifteen years ago, I think.

MR. TILLEY: What was it selling at in '98? A.—I am not sure. It has sold at between 70 and 80 during the last few years, but not much of it is sold.

Q.—The difficulty was about '91? A.—I don't know the exact year, but I should think about fifteen years ago.

Q.—You would not have thought it wise to keep $75,000 at deposit there at that time would you? A.—Yes.

Q.—You would have put it there on deposit at that time? A.—Yes, in a minute.

Q.—Notwithstanding the position the company was in? A.—The possible loss did not affect the safety of the depositors at any time. There was always a security of $2 for $1, always. And the fact that the stocks sell low, Mr. Langmuir, is largely due to the fact that we reduced the dividend in order to effectually clean the company's assets up, and money is worth more than 4 per cent., therefore we cannot sell the stock at par until we are able to increase the dividend, which I think we will be

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

able to do very soon. We had some lands in Winnipeg which have turned out to be a very valuable thing and that is going to enable them to effectually clean it up and have the same assets worth more than they are represented to be. The assets to-day are worth more than the statement shows.

MR. KENT: What is the dividend to-day? A.—Only 4 per cent. We thought it better to reduce the dividend and clean it up and pay a sum we were sure we could pay, than keep the dividend up in order to keep the stock up. It was far better to get the assets right than the selling value of the stock.

MR. TILLEY: Do you or not consider depositing money in that way with a loan company is a direct violation of Section 50 regarding investments? A.—I don't think it is a violation in any way whatever. I think it is quite within it.

Q.—Section 50 says that a life insurance company may invest any portion of its funds in the debentures, bonds or preferred or guaranteed stocks of any building society, loan or investment company. Do you think that that covers putting money on deposit? A.—It doesn't say there that you can even deposit money in the bank, does it?

Q.—It doesn't say you can deposit, but a bank is incorporated for the purpose of receiving deposits. This Act specially says what securities of a loan company you may invest in and that excludes all others, you and I would agree on that? A.—I don't think it prevents you from making a deposit in a bank or a loan company.

Q.—Don't you think expressly saying, you may lend on debentures of a loan company, excludes a deposit? A.—No, I think we have got a right to keep a bank account and deposit money in it.

Q.—Yes, I think you have a right to keep a bank account. A.—This is a bank account or a deposit account.

Q.—No, this is a loan to a loan company without security. A.—It is a deposit with a loan company.

Q.—Without security? A.—No, it is a deposit with a loan company.

Q.—It is not a deposit, you give it to them on an understanding that it is to stay there for three years? A.—That is just equivalent to a debenture. It is just the same thing.

Q.—It is not a debenture? A.—It is not actually a debenture, but it is exactly the same security.

Q.—I don't know. The Act says that you should, if you let a loan company have money, you should have its debenture or its preferred stock. It expressly says what you should have. A.—Well, I have always considered that a deposit in a loan company and a deposit in a bank are identical. Loan companies have a right to receive deposits and banks have a right to receive deposits and we could deposit in there.

Q.—Putting $75,000 in a bank on the understanding that it is to stay for three years is hardly a deposit. A.—I would call it a special deposit.

Q.—It then passes from a deposit to a loan. A.—No, I don't know that it does. I think it is a special deposit.

Q.—There was a large mortgage in 1899 for $19,325.15. A.—Who was it to?

Q.—Humpage. A.—Yes, I know that.

Q.—How did that mortgage come to be taken? A.—That was the security on the London house.

Q.—Was there a loss on that? A.—Oh no, you can look at it as you go past. It is the first corner from the Court House on the north west corner of the next street. $20,000 was the loan.

Q.—It is an odd amount and I wondered whether it was to clear up some transaction. A.—Oh no, that is a perfetcly good loan. It was not on anything but a good investment; and the property, I think, is very much more valuable to-day than it was when we took that. 25 per cent. more.

Q.—Then you say in your returns, and the fact is I suppose, that no bonusses or dividends, have been paid to the shareholders on their stock? A.—No, we have not been able to yet.

Q.—There was an adjustment of interest made after the shareholders had contributed their money in order to equalize matters? A.—Yes.

Q.—Would you explain just what that transaction was.

Q.—Money had been received from time to time from different parties when the company was being organized and that money was put in the savings bank and earned so much interest, and that interest that was earned on the monies deposited was

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

distributed among those whose money earned it, in order to commence from a certain date.

Q.—These monies were received at different dates? A.—Different dates.

Q.—And the company was not then ready to commence business? A.—No.

Q.—So you deposited it at interest in an account, and when you were ready to commence business you treated it as being received at that date. A.—On one certain day, they got the benefit of it up to that time.

Q.—It was not a case where you paid out interest or a dividend or bonus? A.—No, it was not a dividend, it was giving them the interest that their own money earned, that was all.

Q.—You treated that interest as capital put in by them at that date, is that a fair way to put it? A.—No, we gave them that money, we paid it to them. We gave them the interest that their money earned. Chequed it out to them.

Q.—I thought it was added to the amount they paid in? A.—No, each party got their own, what their money earned. It was so as to make it just between the different parties paying in, so that one would not get an advantage over another.

Q.—That was entirely prior to this by-law you passed recently? A.—Oh yes, entirely, that is years ago.

Q.—Then you, I suppose, have had default made in payment of calls on stock? A.—Yes, only one call.

Q.—Where default was made, was it made in respect of the whole call, or was something paid on account in some cases? A.—Never anything paid on account. These who did not pay, didn't pay anything at all. They simply made a subscription and never paid anything.

Q.—What was done with that stock? A.—It was cancelled, and the stock transferred, I think, under a resolution.

Q.—Mr. Milne points out that $2,026.46 was the amount that was paid out on March 31st, 1897 in respect of the interest received from the bank. I suppose it was received from the Dominion Savings? A.—Yes.

Q.—Was there ever any discussion between yourself and any other persons, or between any representatives of the company, as to withdrawing that money from the Dominion Savings Company, when the company thought it was not convenient to have it withdrawn. A.—No, I don't remember any discussion of that kind. There was discussion at our Board meetings about lowering the amount of the deposit.

Q.—Which Board? A.—The Northern Life.

Q.—What stand did you take? A.—I took the stand that it was as good an investment as they could possibly have and it was better for the manager to bend his energies towards getting investments that would pay a slight advance on that.

Q.—What position did the others take with regard to that? A.—Some took my view and some took the other.

Q.—Who took the other? A.—Mr. Long, I think, took the other, and I think Mr. Wilson took the other.

Q.—Mr. Matthew Wilson? A.—Yes. And I am not certain whether Mr. Davis did or not.

Q.—What position did they take regarding it? A.—They thought we might probably earn more money by getting it out in other places, and as I told you, we did not wait until the time was up but let them draw it when they could get another investment.

Q.—You say that that was discussed, was that at Board meetings or committee meetings? A.—Board meetings.

Q.—I see that the Executive Committee of the Northern Life consists of the President, T. H. Purdon, John Ferguson, Frank Love and J. D. Balfour, and the Managing Director, Mr. Milne. A.—Yes.

Q.—How many of those are on the Dominion Savings? A.—Mr. Ferguson, Mr. Love and myself.

Q.—Are you all the directors? A.—No, there are five others.

Q.—Then some on your board of the Northern thought that the money could be withdrawn from the Dominion Savings and invested in ordinary securities? A.—Yes.

Q.—You thought differently? A.—I thought differently, but I let them take it out.

Q.—What did Mr. Love think? A.—I don't think he expressed any opinion.

Q.—What did Mr. Ferguson think? A.—I don't think he expressed any opinion.

Q.—What did Mr. Balfour think? A.—He did not express any opinion.

Q.—Did Mr. Wilson do all the talking? A.—I think Mr. Wilson and Mr. Long did all the talking.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—And they were in favor of taking it out? A.—They were in favor of taking part of it out; I don't know that they were in favor of taking it all out, and I assented to it.

Q.—Did that question come up when it was not assented to? A.—I don't remember whether it did or not. I don't think it did.

Q.—Wasn't it your place as soon as the question was raised, seeing that you were a director and President of this other company to see that that money was taken out at once? A.—No, I don't think so.

Q.—You think that it was not due to yourself to see that money that was deposited with the company of which you were President should not remain there if anyone of your directors was opposed to it? A.—No, I think it was due to myself to see that it was in a safe place and I think I made a mistake when I let them take part of it out and put in where they did.

Q.—Why? A.—Because they wouldn't have lost it. Those that took the money out made a worse investment than where I had it.

Q.—The fact that they made a choice of fire insurance stock does not affect the question because they probably should not have invested in that either. A.—Yes, but if I took your view of it and let other directors do what they thought was right, then I would not be doing my duty at all. I would be letting other people's opinions control my views altogether.

Q.—But you should not let the Dominion Savings control the Northern Life. A.—I think the deposit with the Dominion Savings was a good thing for the Northern Life, I think it was a good investment.

Q.—Supposing that misfortune had overtaken the Dominion Savings, it would not have been the first time in the history of the world that misfortune overtook a company. A.—There has been only one loan company, properly so-called, ever failed in Canada. That is right, isn't it, Mr. Langmuir? I think that was the Farmers in Toronto. That is the only properly so called loan company. The others invest in stocks.

MR. LANGMUIR: We paid 85 cents on the dollar there. A.—Then it was not a bad failure. I did not know that you were a director, sir.

MR. LANGMUIR: I was not a director; I was liquidator.

MR. TILLEY: The fact is the danger comes when you least expect it. If anything had happened in that case where you were taking the position that the money should be left, you being the President and other directors thinking differently, don't you think you would have had hard work justifying your position with the public and shareholders and policyholders of the Northern Life? A.—But there was not such a possibility.

Q.—Because it did not happen? A.—No, but it could not have happened.

Q.—That is the idea that brings trouble very often. A.—No, I don't say that. I think if you stick to conservative investments in mortgages it would be almost impossible for a company with a million of capital and a little over two millions of mortgages, to lose the half of its investments.

Q.—Other institutions were paying the same rate? A.—They reduced it to $3\frac{3}{4}$. There were two or three years there when you could not get interest on a deposit in a bank at all. There was one year we had quite a large deposit in the Bank of Toronto and we couldn't let it out in mortgages and they would not give a copper of interest on it in the bank. We took part of it to the Molson's and only got interest there for a short time. You have to take each year by itself. It is not just to take times as they are now. We have all changed our opinions.

Q.—You have not changed your opinion about the Dominion Savings? A.—I have no cause to. It has been confirmed. It has been getting better all the time.

Q.—Partly due to its ability to get money from the Northern Life on special deposit. A.—That is one circumstance.

Q.—That is the advantage of having directors common to two institutions? A.—And the safety. One of the best men in Toronto told me he believed the safety of their financial institutions largely depended upon the fact that there was scarcely a financial institution in Toronto that they had not somebody connected with it and that that was the reason why they were such a sound institution as they are. And further than that, if you will allow me a moment, I

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

think if you take Mr. Langmuir's company, they have got representative men from all the financial institutions on their Board. I think it is a first rate idea and the right thing.

Q.—That is a different matter. A.—Still it is in the same line.

Q.—Can you say whether any time since '96 the Dominion Savings asked the Northern Life for a larger deposit? A.—No, they never did.

Q.—For some special purpose of its own? A.—No, they never did.

Q.—Did the Dominion Savings at any time not desire more money for a particular purpose, let the Northern Life know that and then receive the money? A.—No, they never did.

Q.—Did the Northern Life ever dispose of any of its securities in order to deposit money in the Dominion Savings? A.—No, the Dominion Savings Society never played the Northern Life for 5 cents in any way, never took advantage of its position. There has never been a minute that the Bank of Toronto would not give us all the money we wanted in the Dominion Savings.

Q.—Now, about this stock that was unpaid, what was done with it? A.—It was cancelled and I think transferred to me.

Q.—You could not do both, could you, cancel it and transfer it to you, both. A.—I think some of them transferred it instead of cancelling it. What was cancelled was not transferred, no, that is right.

Q.—How much was transferred to you? A.—I couldn't tell you the amount. Mr. Milne can tell you. What I am confounding is this, there were some who did not pay and we took a transfer of the stock before it was cancelled. That was it. I cannot say the amount. I think it was sixty or seventy thousand dollars. What was cancelled, but some was transferred before that.

Q.—While that is being looked up, I see that at one time your deposits were $114,383.29 and later on exactly the same. A.—Yes.

Q.—It seems to me the company was always carrying a large amount in what you might call, ready cash. A.—They always carried a good balance, but then it was not idle.

Q.—Other companies seem to think it is a virtue to keep the cash account a little overdrawn. A.—Well, I don't agree with them. I think it is better to keep something on hand to be ready for a good investment if you get it.

Q.—Like C.P.R.? A.—Yes, I suppose.

MR. MILNE. 867 were transferred to Mr. Purdom. (Mr. Milne answers.) 179 transferred to Mr. Purdom, in trust.

Q.—Tell me from your records how much stock Mr. Purdom transferred to other directors? A.—There were 867 shares transferred divided up.

Q—.And he kept 179? A.—Yes.

Q.—The 179 stand in his name in trust? A.—Yes.

Q.—What is the meaning of "in trust?" A.—They didn't want to touch the stock. It was simply there to be disposed of for the company.

Q.—What is the reason for transferring 86 shares to each director? A.—The reason of that was, there was a large amount of Mr. Purdom's in trust, and there was an attempt made to buy up the company. So that stock was transferred to the company to save outsiders from buying up the stock.

Q.—In the first place, Mr. Purdom, the stock was transferred by shareholders who had not paid, to you.

(MR. PURDOM answers). A.—That was it.

Q.—Had there been a dollar paid on any of that stock? A.—No.

Q.—It was entirely unpaid stock? A.—Entirely unpaid.

Q.—Under your by laws and Act no person could vote on that stock? A.—You could not vote on it.

Q.—How many shares would that represent in all, Mr. Milne? A.—$86,700, I think. 867 shares, I think.

Q.—What was the reason that prompted you to get that in?

(MR. PURDOM answers.) A.—Well, it had not been paid up and we just had it transferred over. We didn't want to have to sue anybody on a call. We didn't require to do that and we thought it was better that the stock should be transferred over in order to clean the slate up, that was the only object.

Q.—The company needed the money, I suppose? It would have been better for the company because I see you were trying to sell the stock? A.—No, we could get it easier than suing people, we didn't want to sue and never did.

Q.—At any rate that was transferred to you? A.—Yes.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—Was there any desire to vote on that stock? A.—No, there never has been a vote.

Q.—I thought Mr. Milne said there was some desire to vote on it? A.—No, he said there was parties wanted to buy the company up. That is a different thing.

Q.—Buy the company up in what way? A.—Whenever a company begins to succeed some outsider wants it. If it is a failure they don't want it. If a company begins to succeed then someone wants to buy it, they want to get the advantage of your work we wanted to prevent anybody from doing anything of that kind. Therefore the stock was transferred and each of the directors assumed a certain proportion of it and made it subject to call.

Q.—They assumed that personally? A.—Yes.

Q.—That was at what date? A.—I don't know the date.

Q.—I see it was transferred to the individual directors on February 2nd, 1903.

MR. MILNE: That is right.

Q.—Then it becomes subject to call?

MR. PURDOM: A.—Yes.

Q.—Have any of the directors paid the call? A.—No.

Q.—Why not? A.—We don't want the money.

MR. MILNE: The call has not been made.

Q.—Oh yes, the shares were issued subject to a call of 10 per cent.

MR. MILNE: Practically I don't think there was ever a call made. It is assumed that they might pay 10 per cent. and they did pay it, but there is no record in the books of a direct call made, only on the stock that we cancelled. Mr. Wilson calls my attention to the fact that the premium on that stock has been paid by some of the directors.

Q.—By virtue of what arrangement? A.—By virtue of this by law.

Q.—Under this printed by law? A.—Yes.

Q.—Then that stock was got in a couple of years before this by law was passed?

(MR. PURDOM answers). A.—Yes, quite a while before.

Q.—You produce a by law that has been finally passed as a by law of the company? A.—Yes.

Q.—It is regarded as a by law? A.—Yes.

Q.—Who prepared this by law? A.—I think it was prepared by Mr. Milne between them and also the Committee, it was gone over very carefully by the Committee and discussed and rediscussed.

Q.—What object had the Committee in passing the by-law, what condition existed that made the Committee think it would be better to have a by law? A.—The preamble shows that.

Q.—And does that set it out truly? A.—Yes, that is the correct reason for the by law. We wanted to declare what would be an equitable thing to do under the circumstances.

(The by law is filed as Exhibit 312.)

MR. LANGMUIR: You did not get uniformity in that way. A.—Well, we expect to be able to pay a dividend next year and we want to know what is right and just. Some of the shareholders who have paid up in full are wanting to know what difference they are going to get and some of the unpaid thought they were not entitled to any.

MR. KENT: I suppose some of those who have paid only 10 per cent. thought that if the others chose to pay more, that was their affair and they could not expect any greater dividend. A.—That is just it, Mr. Kent, they did it of their own motion and have to take the consequences.

MR. LANGMUIR: If there was any very serious impairment of the capital in the future, then those who have paid up are exempt from call of course? A.—Exactly.

Q.—Do you think that is a wise thing? A.—There is that difficulty in the future, and if there has to be a call in the future I don't think we can call except that part, I don't think we could compel any subscriber to pay this 25 per cent. that we are now giving them the option to pay.

MR. TILLEY: Unless you get some Statute like the London Life? A.—Yes, exactly, unless you get statutory powers, we would have to go to the House of Commons and get power.

Q.—My idea would be that you could not compel payment of a premium on stock? A.—No, I don't think so.

Q.—The only way to do it would be to get some statutory power, or probably as the Excelsior did, get them all unanimous? A.—Well, you might

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

do that, but it would be a difficult thing to do with the large list we have got.

Q.—The Excelsior seemed to carry it through? A.—Possibly it could be done.

Q.—But the more shareholders, and probably the smaller amount of each shareholder's interest, the greater the trouble? A.—Yes, there is something in that.

Q.—Then provision one of this by-law is: (Reads from Exhibit 312.) Have any of the shareholders paid under that? A.—Yes, Mr. Milne can tell you the amount that has been received.

Q.—Would you tell us what amount has been received under that, Mr. Milne?

MR. MILNE: I think we have somewhere in the neighborhood of $15,000 to $16,000 paid of premium. They have all decided not to pay their stock until towards the end of the year because no interest will be allowed and they will pay that just before the interest comes into effect, but they have to pay the premium now, according to the by-law.

Q.—Then they are paying the premium without paying anything on the stock at all? (Mr. Milne answers.) A.—No, because they would not be allowed any interest on the stock until after the dividend will be declared about the first of next year, perhaps.

Q.—Then these shareholders are paying in 25 per cent. on their stock by way of premium? A.—Yes.

Q.—And they are paying it in on a basis of getting interest on it? A.—No, they get no interest on the premium.

Q.—But they have not paid anything on their capital? A.—No.

Q.—Other shareholders have already paid 10 per cent. on their capital? A.—Yes.

Q.—And they are not getting dividends? A.—They are not. We expect to get dividends next year and the dividends will be declared on the next year's funds and these men that are paying in their premium will pay in before the end of the year to place their stock in a position to give dividends along with the rest.

Q.—Then do you think, Mr. Purdom, that a company has a right to take from a shareholder premium on his stock when he has not paid anything on his stock at all? A.—Well, it would be just like an original subscription. They are doing that all the time. That was the way I understood the Imperial did. Took 25 per cent.

Q.—But it made a call on the capital and a call on the premium. (Mr. Purdom continues to answer.) A.—I suppose that is a matter of discretion.

Q.—You seem to have put it in the position that there is no call made on your stock at all? A.—Yes, that is the stand we are taking.

Q.—And yet you have forfeited a part? A.—They made a call on that particular part.

Q.—Can you make a call on a particular block of stock? A.—The rest was paid. Everybody else has paid their ten per cent.

Q.—Has a call been made on this stock that was transferred to you? A.—No, not that I know of.

Q.—Has anything been paid on it? A.—No.

Q.—Then how can a call be made on some unpaid stock in the company and not on all? How can you make a call on stock I hold and not on stock you hold? A.—They gave these parties a certain length of time to pay this 10 per cent., but I don't know that it covered any more than those particular shares.

Q.—Was there any by-law relating to that call? A.—I have forgotten. Do you remember?

MR. MILNE: No.

Q.—Then the proceedings to forfeit that stock might be quite invalid? A.—It might be.

MR. MILNE: The stock that was forfeited, there was a call made and they were notified of it.

MR. PURDOM: But the point Mr. Tilley raises is that a call cannot be made on part unless a call was made on all the shares issued and nothing paid.

MR. WILSON: There was nothing cancelled except by consent. Nothing involuntarily cancelled.

MR. TILLEY: It might not be properly cancelled, even then? A.—That is right.

Q.—Then the second provision of this by-law reads in this way: (Reads 2nd para. of Exhibit 312.) Do you consider that valid? A.—Well, we went over it all and thought that that was the best way to do.

Q.—What do you think about the validity of that? A.—I think it is debateable.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—With the chances which way? A.—Well, I don't know. I should think the chances would be in favor of it being held valid.

Q.—On what ground would you put that? A.—Because it is for the benefit of all parties concerned, and because if a man wishes to relieve himself of that stock there would be no difficulty in re-issuing it.

Q.—Do you think the company can take a transfer of its own unpaid stock from a shareholder and relieve him from liability and resell that stock? A.—I think they could if there was no loss to the company, but if there was a loss to the company there would be probably a directors' liability.

MR. LANGMUIR: Is it held in trust? A.—Held in trust for the company and with the intention of selling it at a profit for the company.

MR. TILLEY: The object of that clause is that I can go to the company and if I have paid 10 per cent. on 10 shares the company is authorized or it is attempted to give it authority under this by-law to give me one paid-up share for all I have paid in and take off my hands the other nine, and treat that as unpaid stock and have that transferred to a trustee for the company and then the company resell it, if it can.

MR. LANGMUIR: That is a unique provision? A.—It is quite practical.

MR. MILNE: We are selling some at 125.

MR. TILLEY: Then No. 3. (Reads para. 3 of Exhibit 312.) Is this a by-law enacting something or an argument? A.—It is giving the reasons and then the conclusion so that there need be no doubt about it.

Q.—That is rather an odd by-law, is it not, Mr. Purdom? A.—Yes, it is. I think it is new.

Q.—It is not copyrighted? A.—No, it ought to be. We will give you the privilege.

Q.—Shortly, what is the idea of that clause? A.—To equalize between the 10 per cent. man and the man who paid up 100 cents. It was felt that a man who paid in $100 on $1,000 of stock ought not to get a dividend to the same extent as the man who paid $1,000 on $1,000 of stock. In other words we have had $900 that we had the use of all these years and it was felt to be unfair to take the use of that man's money during these 8 years and not allow him at least what would be equivalent to Savings Bank interest for it, and it was for the purpose of equalizing the two conditions. You take a man who pays in only $100 on $1,000. He has not been as much good to the company as the man who paid in $1,000: and on the other hand a man who paid in $1,000 in full on a $1,000 subscription was not quite as good as the man who paid $1,000 on a $10,000 subscription.

Q.—Why? A.—Because you have the benefit of the man's subscription and his liability to call, if at any time our capital had been impaired, all those who had only paid in ten per cent. we would have made a second call on and made them pay 20 per cent If it had wiped out the 10 per cent. of the capital we would have made a second call.

Q.—You think those shareholders who held unpaid stock should receive some compensation for the liability they were under in respect of that stock? A.—I think they ought.

Q.—Is not that a dangerous principle to apply, that a person who will subscribe for and hold unpaid stock should receive some compensation for that? A.—Well, I don't know. Of course there are so many strange things done. There is a case there in 8 Appeal that shows that in England they paid according to the shares held by each and disregarded the amount paid up, but, of course, it was under the Articles of Association and I did not think that case applied here at all, and I thought it would be a shocking injustice to apply it. If a man pays only 1/10th of what another pays he should not be entitled to the same dividend. But that is the position of the House of Lords under the circumstances of that case and under their Articles of Copartnership.

Q.—That would depend on the Articles of Association or the Charter or Act? A.—Yes.

Q.—You come under the Companies Clauses Act? A.—Yes.

Q.—And section 13 of that simply provides that the directors may pass by-laws for the purpose of declaration and payment of dividends? A.—That is all.

Q.—It does not say whether that is to be on paid up stock? A.—No, it does not provide for a case of this kind at all. In the case of loan companies it has been disregarded because in loan companies they generally pay dividends from the beginning, and it was quite common to

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

have unequal amounts paid on stock and the dividends were always declared on the money paid in, when the man who had not paid in his money in full frequently made money out of nothing; he held it until the stock went up and then sold it at a premium and never had any investment for any length of time at all.

Q.—I will read this last Clause 5 of Exhibit 312. (Reads.) I should think a man would be almost afraid to buy this stock? A.—Why?

Q.—He could never get through this by-law and understand exactly where he was? A.—That depends on his ability.

Q.—(Reads para. 6 of Exhibit 312.) Now that sets out what the directors thought was the fair thing to do under the circumstances which existed in this case? A.—Yes.

Q.—Is there anything else you would like to say about that? A.—No, I don't know that there is anything else. That was the conclusion we came to after considering the matter after months, or I might say years, and it was not the opinion of any single person. I might say when I started at it that my opinion was very far from this, but after talking it over from all sides it was the result of a great deal of discussion and compromise. I gave way on some of my opinions and others gave way on some of theirs and this is the general result. It is not the opinion of anybody as it stands.

Q.—I guess the proportion of giving way was in your favor? A.—No, the other way. I gave way more than I got. I have done all along in the management of this company.

Q.—When you refer to the several years this has been considered, you are referring to the serious discussion that has taken place regarding the impairment of the capital of the company? A.—Partly that and to the inequality that has existed between the paid up shareholders. It did not occur to me that the shareholders would be 10 years without a dividend when we started. If it had only been a year or two there would be no serious difficulty about it, but where it comes to be 10 years, then I think some provision should be made for it.

Q.—This by-law then is aimed at making a division amongst the present shareholders of the company that will make them equal in the result now? A.—As nearly equitable as we can devise.

Q.—The result of passing a by-law now to carry out that intention has the effect of discriminating between the shareholders that are there, does it not? Is it not of the essence of a by-law that if it declares a dividend on this stock it shall pay a dividend on all the stock and to all the shareholders? A.—That is supposed to be the rule, but there is no rule laid down by the Statute.

Q.—You think by dealing differently with different classes of shareholders you are bringing a result of equality between them? A.—That is the object.

Q.—And I suppose further discussion of that does not advance it any; if that is within your power you have attempted to do it? A.—That is the whole point. If we had that power we have done it, and if we have not, we have not. The by-law would not be good. All we claim is that we tried to do the best we could.

Q.—You say the motive is right regardless of the validity or invalidity of it? A.—Yes.

Q.—What is the object of making it to the advantage of the shareholders to pay premium on their stock now that you have come to the turning point and you say this year you hope to wipe out the impairment entirely? A.—That sum Mr. Milne named, between $15,000 and $16,000, is already received. Now if there had not been any Commission to investigate companies we probably would have had $25,000 by now. We were only impaired $21,000 at the end of the year; suppose we take the $15,000 or $16,000 with what we will get in the course of events in the business of the company in this year and add it up to the present time, the chances are we are more than $21,000 ahead, so that I would say, taking that by-law into consideration and the sums received through it that at the present moment they are out of impairment; that would be my way of looking at it. And that by-law was passed upon the assumption that our business was self-sustaining now. Now, that is the point that I think is important to bear in my mind and that I think worth mentioning to the Commission. I think that is when the company is actually out of impairment, when its business is self-sustaining; apart from capital altogether, if a company has to come back to its shareholders to get capital to meet losses,

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

even if it does not show impairment, then it actually is impaired.

Q.—The question is whether a company is picking up or going ahead? A.—Yes, the real point is, are they self-sustaining? Not, does their statement show an impairment, but are they doing business, so that in that particular year there is more profit than loss.

Q.—If you are in that position now you knew you were coming to that position, six months ago? A.—Yes.

Q.—A year ago? A.—Yes.

Q.—Then why allow shareholders to pay any premium if your company is in that position? A.—Because we would reach it a year or two quicker and they will get dividends a year or two quicker.

Q.—But you are putting in a fund there which is going to cost the policyholders something? A.—Not much. Something that they are willing to pay. It is optional with them. No, not policyholders; I am wrong; I don't know where it will cost the policyholders anything.

Q.—You think working it out under this by-law will not take anything from the pocket of the policyholder to the pocket of the shareholder more than it otherwise would? A.—No, I think it is a benefit. It strengthens his position as well as the shareholder's, and strengthens the company, makes more money to earn and th money that is put in as premium earns money for the policyholder and does not cost him a cent.

Q.—It makes a larger fund but I don't know that that is a very important matter to discuss in your company, because everything is left to your directors, as to what the policyholders shall get? A.—There is no definite rule, but I think 90 per cent in the Act, that is participating policies.

Q.—The Act does not say that quite. When you set aside a certain amount for dividend, 90 per cent. of that must go to policyholders, but it does not say, you must set aside more than $10 for profits? A.—It is discretionary how much they will set apart.

MR. KENT: I was wondering all through why those shareholders paid up their money in excess of the call. I suppose the reason was they calculated that in a year or two they would be getting dividends? A.—They expected to get dividends sooner, but they got rid of the liability.

Q.—They got rid of their money, which was bothering them? A.—I know one man told me he never would subscribe to bank stock, on account of the double liability, and I know certain of these subscribers paid up so as not to have an unpaid liability.

Q.—If they wanted to go fishing, their stock was paid up and they would not be bothered with a call in their absence? A.—That is it, and they would not have to wait for a dividend 10 years, they expected.

Q.—At that time it was not customary for the insurance companies to wait 10 years? A.—No, but the Federal Life paid one dividend and then didn't pay another for a long time.

Q.—They strained themselves in the effort? A.—Yes, they paid too soon.

MR. TILLEY: Can you tell me what shareholders are availing themselves of this? A.—Mr. Milne will give you that.

Q.—Then as to the propriety of restricting or widening or maintaining at the same standard the investment powers of companies. What are your views? A.—I am in favor of enlarging the powers of investment by insurance companies.

Q.—Would you curtail the present Act in any respect or in any particular? A.—No, there is nothing in the present Act I would take out, but I would give greater powers.

Q.—You would take out the fire insurance companies? A.—I don't know that I would. As far as I am concerned I won't make that mistake again.

Q.—Because you have got that special experience; are you waiting for the other insurance companies to get that? A.—They won't need it; they can use ours. I don't think it is necessary. A fire insurance company may run on for years and pay a splendid dividend. The Western for a long time stood very high. These are unforeseen things; the Baltimore fire, then Toronto, and then San Francisco. I don't think the men at the head of affairs are to blame.

Q.—Then what extension do you think would be right? A.—I would give good wide powers. I think it is perfectly absurd that we cannot invest in C.P.R. and we can invest in the stock of a trolley company. I think that is inconsistent.

Q.—You think there should not be a difference betwen steam and electric

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

railways? A.—No. Then there are a great many industrial stocks that would be perfectly good. I think leave it to the discretion of the directors, is as good a rule as can be laid down.

Q.—Throw it wide open? A.—Yes, leave it to their discretion, very wide powers are given to banks.

Q.—There is a difference between banks and insurance companies. A person dealing with a bank can ascertain the financial position of the bank at any time and if he is not satisfied with the management he can go to another bank, but the policyholder in an insurance company cannot change. A.—I am speaking of the power of a bank to invest.

Q.—That is what I am referring to. If I am dealing with a bank and I am not satisfied with the management I can leave. If you have a wide open door for investment it all depends on the management? A. —Exactly.

Q.—If I am not satisfied with the management I can leave a bank and go to a bank where I am satisfied with the management? A.—Quite right.

Q.—But with an insurance company my payments are going in now and the benefit to be repaid 30 years from now? A.—That is right.

Q.—In the interval a new management comes in and I say, I am not satisfied with the management, they are abusing their powers of investment, but I cannot leave, there is the difference. A.—You cannot leave and yet, take where wide powers are given, take the powers of a bank, they are wide and they are largely the cause of the success of our banks.

Q.—They are wide for another reason. A.—If they did not have wide powers they could not make the money they make.

MR. LANGMUIR: You would give free trade in investments, as in England? A.—Yes.

Q.—Don't you think there is a difference in conditions, that is England is more stable? A.—I think people in Canada have just as good level heads as in England.

Q.—But I am asking whether in the light of the past, you see how much has been lost? A.—You see how much is lost in England, sir.

Q.—Very little has been lost by insurance companies. It is all very well to say, free trade as in England, but my examination of the Board of Trade Reports shows that they are most conservative. A.—I think they are, and I think we are conservative in Canada.

Q.—Very well, but Canada is just at this time progressing very rapidly and you may have to arrange for a reaction and some loss and for further calls. Insurance men are not prophets? A.—No, we are not prophets, there is one thing certain our foresight is not as good as our hindsight. We can always tell better after the event. I believe in good free scope because I believe the directors of companies are almost invariably trying to do the very best they can.

Q.—I believe that, but are not some trying to go a little too fast? A.—I believe they are the highest class of men in the community. And I believe the average director is away above the average member of Parliament, and I believe if this Commission investigated any Department in the Government they would find more wrong than they will with the insurance companies.

MR. KENT: Still, is it not a fact that amongst insurance managers, not to-day present, there are some at least that you would not like for commercial bed-fellows? A.—Oh, there are men of that kind, and one has to have one's eye teeth cut sometimes to deal with them. But there is nothing perfect in the world.

Q.—I have heard that opinion controverted. Some have gone so far as to lay down as an axiom that an insurance manager, and particularly an insurance director, must be an honest man, above reproach from the very fact that he is such a manager, president or director. A.—Oh, well, that is nonsense.

Q.—Well, we have heard lots of nonsense during this investigation. A.—I don't doubt that, but experience is that among all classes of men there are some that are not good. Among our ministers there are some who are not good. But there is this to be said, that if you find a politician who is honest, he has been tried, he has been through the fire and proved to be honest. You could not get a more honest man than David Mills, who was President of this company, or Alexander MacKenzie.

50th day, London, June 29, 1906.

MR. TILLEY: If you just said Mr. Mills was President of the Northern that would be sufficient? A.—Yes.

(Mr. Milne enters the witness box.)

MR. TILLEY: Would you be good enough to have a statement made for us showing the condition of the deposits with the Dominion Savings during the time the accounts were there; whether special or general deposits; just giving totals at say each quarter; not a full statement but a history of it at a three months' period? A.—Yes, I will do that.

(Statement to be filed as Exhibit 313.)

Q.—Without reading over this special provision of this by-law, I would like your statement as Manager of the company as to the condition that existed at that time and why in your opinion it was a good by-law to pass? A.—Well, our company, I believe, is different from any other company I ever heard of.

JUDGE MacTAVISH: And you can say the same about the by-law; it is different from any other by-law that you ever saw? A.—Yes, I think with Mr. Tilley that the by-law ought to be copyrighted. When the people were allowed to pay different amounts it unequalized our stockholders and Mr. Mills and I talked the matter over many times before he died and he said, these men will have to be adjusted in some way. I got letters very frequently from men who had been led to believe when they subscribed for their stock that they would get their interest on their money any way and their profits later on. I believe that the man who sold the stock represented it in that way. And a good deal of fault was found when they found they got no interest on their money. I went down to Montreal and Quebec and saw a number of these men who had paid up their stock in full, and explained the matter to them.

MR. TILLEY: Don't give us too much detail. A.—They said, we must be recompensed for this, and we thought morally they ought to be, because they claimed that our representative made that statement to them. Now then, I commenced to figure how we would adjust this and I thought it over a good many times and communicated with Mr. Purdom and talked with him and talked with Mr. Wilson, who took a very active interest in it. Mr. Wilson suggested a by-law; I suggested a by-law and we met as a committee and discussed the matter several days and finally arrived at this as an equitable way to adjust it.

Q.—Explain the feature of this as you appreciate it, that makes it equitable? A.—Some parties who had not paid their stock, when they saw we were getting in good shape, wanted to pay their stock. We didn't think it would be right for them to come in at the eleventh hour and pay up the balance of their stock and get a dividend on that money, the same as the man who had paid it in eight or nine years before, and we had a resolution on the minutes not allowing them to pay up any more stock unless at a debit or premium of some kind. This opened the way of giving them the opportunity of paying for the stock at a premium and we thought this would satisfy those who had paid up in full. It would show them that we were considering them.

Q.—Explain the scheme of the by-law, the practical feature of it, that is all I want to get? A.—It is all optional. If a man does not pay it his stock stands just as it is. He has the right to pay up the stock in full by paying 25 per cent. premium. He has that option up to a certain time.

Q.—Assuming that he exercises that option, he would pay up the balance of his stock and pay the premium? A.—Yes.

Q.—You have allowed him to pay the premium first without paying anything on the stock? A.—Yes, the reason we did that would be that there would be no interest charged to the stock until after the 1st January, and they wait until the last minute, probably.

Q.—How many have availed themselves of that right, and who are they? A.—I can give you, perhaps not every one, but I kept a little memorandum of them as they happened to come in. There were probably forty or fifty.

Q.—Take the directors? A.—Some have and some have not yet paid. Mr. Wilson has paid his premium and he is a very large sctockholder.

Q.—But not paid his call? A.—He has not paid any on the stock, but intends to pay it before the end of the year, he says. Mr. Davis has paid his premium and his premiums amount to a large sum.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—If a shareholder did not care to exercise that option what other option had he? He had the option of having the unpaid portion of the stock cancelled and treating everything he had paid in as payment in full? A.—If we considered it advisable; the only one has been a widow, perhaps, that they have money, but they cannot pay up, could not and never would and didn't like the liability.

Q.—You know there is a question as to the validity of a by-law such as this? A.—It is quite debateable.

Q.—Don't you think you may be gettingthe company into more trouble than it was in when you passed the by-law by letting the people treat their stock in that way, or a by-law that may be determined to be invalid? A.—I don't think we will have any trouble. There were criticisms on both sides. A man who had paid up his stock in full condemned the by-law because he wasn't getting enough. The ones who had not paid up their stock condemned the by-law because they could not pay up their stock without a premium.

Q.—The by-law is the result of what might be described as careless treatment of the calls in the first place? A.—Yes, allowing some to pay and others not.

Q.—And you are attempting? A.—To equalize the men.

Q.—Attempting to get rid of the inequality that resulted in? A.—That is right.

Q.—And you are doing that by what you regard as a doubtful means? A.—Well, it is for the best interest.

Q.—But is it not regarded by the directors as doubtful with regard to validity? A.—Well, it is debateable by the directors themselves. Some think one way and some another.

Q.—Are you not getting from the frying pan into the fire? A.—No, we will have no trouble. We sent one man all over to explain this by-law. I don't think one man in ten would understand it at the first reading.

Q.—No, nor at the second? A.—No, but it is going to do the company a great deal of good.

Q.—Now there is a by-law in your company that no directors or officer of the company shall directly or indirectly borrow any money from the company? A.—Yes.

Q.—What is the force of "indirectly" borrowing money from the company, how can he do it indirectly? A.—Well, that never practically occurred to me. There are none of them have borrowed money.

Q.—Can he do it by being a director or President of another company and then helping the other company if they would like a good substantial deposit, for instance? A.—Well, it never occurred to me in that light, as none of the directors have ever asked for any money.

Q.—I see that there were a couple of call loans made, or loans on stock, I won't say call loans? A.—Yes.

Q.—Who were they made through? A.—One was made on some stock in the bank of Montreal, through a party in Ottawa.

Q.—Is he interested in the company? A.—Oh no, a perfect stranger, it is a woman practically that has some stock.

Q.—A fair margin? A.—A good margin.

Q.—The other loan was on what? A.—A real estate man here that held $16,000 worth of stock in the Dominion Savings and used it in real estate transactions and we lent him $8,000 on it.

Q.—Was he connected with your company? A.—No.

Q.—By business arrangements or in any other way? A.—No, he may occasionally bring us a loan on real estate but no other interest whatever.

Q.—Didn't you have a by-law that in case of dispute as to the practical application of any by-law, the construction put upon the by-laws by the Board shall be final and conclusive; has that been acted on? A.—Never to my knowledge.

Q.—Do you know why it is put there? A.—I don't know.

Q.—There is no history connected with that section? A.—It was put there at the time we framed the by-laws, to provide for some contingency that might occur, but there was never anything came up.

Q.—Has any loan ever been made to any director of the company? A.—No.

Q.—Or any officer of the company? A.—No.

Q.—Then I would like a statement as to what the impairment on your capital has been, what was it at the end of 1905? A.—Did I send you a statement of the impairments at different years?

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—I think you did, but I have my figures reached in another way. I don't know how it agreed with what you stated about it? A.—I can get it by a copy of these reports I sent you, my financial statements at the end of each year. We commenced in '97; the impairment would be about $27,000 in '99.

Q.—I have it $21,825? A.—Well, perhaps that is right. In 1900 the impairment was $52,400 some odd. In 1902 the impairment was $59,096. In 1903 we commenced to reduce. In 1903 the impairment was $53,000 odd. In 1904 our impairment was $38,000 some odd. In 1905 it was $20,000 some odd, nearly $21,000. Those are approximate figures.

Q.—In the assets you have included in all your statements agents balances? A.—Yes, I have included them as an asset. They are an asset to a certain amount and in 1905 those agents balances are only half the amount. I cut off what I thought would not be good. They might not all pan out, but they are a fair representation of what we would consider an asset. I have only told Mr. Blackadar that when we got out of the impairment of capital I would never count them, they would be just so much a head. A young company wants to get out of impairment as well as it can, for the sake of the field force.

Q.—In some of the years there is a difference of $2,000 or $3,000 in my figures; that might be accounted for by agents balances that are debateable items? A.—Yes.

Q.—You think by the end of this year you will be rid of the impairment, principally by reason of the payment of premium under this by-law which you passed in December, 1905? A.—Yes, I think we will have some surplus. I expected to get $25,000 out of that premium and I think I would have had it now only these investigations unsettle people a little bit. When we get through, if we can show a clean sheet they will go ahead.

Q.—As early as February 1st, 1904, it was the idea of the President that you would get rid of the impairment and commence to pay dividends very soon? A.—Yes.

Q.—So that the by-law cannot be said to have been passed because of the impairment really? A.—No.

Q.—It was more the inequality that existed between the shareholders than the impairment of capital? A.—That was the main object.

Q.—I notice you have been trying to sell the stock at a premium of 50 per cent.? A.—We have not tried. We have just made that proposition in the by-law and one party in Detroit sent me a notice that they would take a portion of the stock. That would be the new issue.

Q.—The resolution that releases stockholders and giving them paid up stock for what they had paid, the balance to be assigned to the President, was I suppose, the resolution adopted to work out the scheme that this by-law suggests? A.—Just so.

Q.—And it was by that resolution that Mr. Purdom got his stock? A.—Yes, some stock in trust.

Q.—You had transactions with the Dominion Savings, of which Mr. Purdom is the President? Have you had any financial transactions of any kind with other companies in which some of your directors are interested? A.—I cannot think of any. We had some small transactions at one time with the Union Trust Company in which I think Mr. Matthew Wilson was interested.

Q.—Any other company than the Union Trust? A.—I don't call any other to my mind just now.

Q.—What transactions had you with the Union Trust? A.—We got some mortgages from them; they were to invest some moneys on mortgages in Manitoba and there were a few mortgages put through and they were transferred from them to us. We had no right—

Q.—Who made the arangement with the Union Trust Company on your side? A.—Mr. Matthew Wilson.

Q.—Who made it on the Union Trust side? A.—I fancy he went to the Union Trust Company and made the arrangements.

Q.—What connection has Mr. Matthew Wilson with the Union Trust Company? A.—One of the directors of it.

Q.—On their investment committee, is he? A.—Yes.

Q.—What arrangement was made and then we will find out how it was carried out, because the transaction is not explained on your minutes except that I see a reference to the settling up of the matter? A.—It was desirous that we should get some of this $75,000 of money that we had in the Dominion Savings, and Mr. Matthew Wilson thought the Union Trust Company, having all their ar-

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

rangements in the West, could put that money out to better advantage, and the resolution was prepared at our meeting of the directors, and Mr. Matthew Wilson, Mr. Long and myself and Mr. Purdom were to negotiate in that way.

Q.—Was that a resolution embodied in the formal minutes? A.—Yes, I think so.

Q.—Ask someone to look it up because I cannot find that myself. I do not say it is not there plainly. A.—It is in the minutes, that would be in 1902. It was a matter of some $13,500, that was all.

Q.—That was to take some money from the Dominion Savings? A.—Yes.

Q.—Because some of your directors thought so much money should not be there? A.—Yes.

Q.—Was one of the directors who thought so much should not be there Mr. Wilson himself? A.—Yes.

Q.—And who else? A.—Mr. Long.

Q.—Had Mr. Long anything to do with the Union Trust? A.—Not that I know of.

Q.—Any others? A.—No, not that I know of.

Q.—That idea prevailed after a time? A.—Well, the resolution was unanimous.

Q.—Had there, previous to that, been any discussion between the directors, some taking one view as to the advisability? A.—Just at the time that resolution was brought up, that was all at the time it was suggested, only a matter of fifteen or twenty minutes.

Q.—The idea was that the Union Trust Company would be able to place loans out in the West? A.—Yes.

Q.—And that you would give them some money with which to make investments? A.—Yes.

Q.—Did you give the money to the Trust Company? A.—We gave them money just as they put out the mortgages. Sent them a cheque for their mortgage, that was assigned to us.

Q.—Was it all paid at one time or as each mortgage was received? A.—No, it was not paid all at once; two or three times.

Q.—Did they submit loans to you for your approval before they were assigned to you? A.—Yes, they sent the loan papers, the applications for the loans up to our solicitors.

Q.—And then if you approved of them they went through on your account? A.—Yes.

Q.—Did your solicitor pass the title? A.—Yes, he had to before we could send the money, but he did it on the strength of their solicitors as well.

Q.—Your solicitor was responsible for the passing? A.—To us, our solicitors were responsible.

Q.—And was the application that was sent for the loan an original application signed by the mortgagor himself? A.—Yes.

Q.—Having done that and the loan going through, you would send the money to the Union Trust Company? A.—Yes.

Q.—And then was the mortgage taken in your name? A.—The mortgage was taken in the name of the Independent Order of Foresters. It appeared to be their money that they had to lend out.

Q.—Why was that done? A.—At the time the mortgage was made, it was taken in the name of the Independent Order of Foresters and then assigned to us.

Q.—You were not dealing with the Independent Order of Foresters? A.—No.

Q.—What had they to do with it? A.—Nothing, so far as we were concerned. It appears that when they transferred these loans to us, they had gone on with the negotiation with the Independent Order of Foresters and if we approved them they would transfer that mortgage to us. To save time, being so far away, they had gone on and completed it on their own strength, and if we didn't take it, they would have the mortgage.

Q.—Who was lending the money, the Union Trust or the Independent Order of Foresters, whose transaction was it? A.—The Union Trust Company were lending the money for the Independent Order of Foresters.

Q.—The Union Trust Company was lending money for both you and the Independent Order of Foresters? A.—Yes.

Q.—An application would be submitted to you and while waiting for your approval the transaction would be carried on just the same? A.—Yes, and then assigned to us.

Q.—And the mortgages were found to be in the name of the Independent Order of Foresters? A.—Yes.

Q.—Was that a surprise to you? A.—No, because we had no license to lend money in Manitoba and we

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

couldn't lend it directly without taking out a license. Consequently it was loaned in the name of the Independent Order of Foresters and assigned to us.

Q.—You say it was assigned to you? A.—Yes.

Q.—Cannot you loan money there now? A.—We have taken out a license since.

MR. WILSON: This was pending the getting of the license.

MR. TILLEY: That is set out here in the two resolutions. The first is a resolution on the 15th October, 1902, whereby it was moved by Mr. Wilson, seconded by Mr. Calvert, that the First and Second Vice-Presidents and Mr. Wilson and the Managing Director, ascertain the best mode of investing in mortgages or stock at least $100,000 of the company's capital, and when such investments can be made that such committee have power to arrange for and make such investments or any agreement therefor. You apparently had about $100,000 at that time open for investment.

Q.—And I suppose you had had before, except in so far as you treated the Dominion Savings deposit as an investment? A.—Yes.

Q.—On December 11th, 1902, the Manager reported that the majority of the loans selected by Mr. Wilson and Mr. Long had been taken by the Trust Company in the name of the I. O. F. and the sum of $13,000 had been sent to Mr. Foster, the Manager of the Union Trust Company. The Manager suggested that assignments be made to the Northern Life and the transactions completed and that was done? A.—Yes.

Q.—Have you had other transactions of a similar nature after that? A.—No.

Q.—None at all? A.—No.

Q.—And those loans were all satisfactory loans? A.—Yes.

Q.—No losses on any of them? A.—No.

Q.—The interest being paid promptly? A.—Yes, fairly well.

Q.—Now, I think we will take up the other branch of the case. What actuarial help have you in the office? A.—We haven't any.

Q.—Are you an actuary? A.—No, I am not, but I do my own actuary work and submit anything to our consulting actuary, Mr. Fackler, of New York.

Q.—You have an arrangement with Mr. Fackler, the consulting actuary in New York, and then you compute matters as you think proper and you submit them to him before any definite action is taken? A.—Just so, he approves of all our policies or anything of that kind.

Q.—I notice that at a certain time Mr. Fackler or some actuary advised you as to the best way to obviate an impairment by having a sale or some transaction with a director or some other friend and then repay out of future premiums and commissions. Do you remember that? A.—Yes, we discussed with Mr. Fackler the way to get rid of the impairment.

Q.—Was it Mr. Fackler suggested that? A.—Yes.

Q.—And he drafted a sort of agreement for you to carry out? A.—Yes, I think I have Mr. Fackler's letter.

Q.—Would you let us see it? We will go on with something else while that is being looked up. You appointed a Finance Committee? A.—We had a Finance Committee in the early part that was merged into an Executive Committee.

Q.—And the Executive Committee now does all the work that that Finance Committee did? A.—Yes.

Q.—Does the Executive Committee deal with investments? A.—Yes.

Q.—And does it keep regular minutes? A.—Yes.

Q.—Do you think insurance companies should be required to keep their books in some more uniform way? A.—I think it would be well. Here is Mr. Fackler's letter.

Q.—Have your books been kept in such a way as lends itself readily to verification? A.—I think so.

Q.—Do you think it would be well that the Department should have the right to criticize modes of keeping books? A.—It would be quite right.

Q.—And require different books kept in a way that lends itself to their inspection? A.—Certainly, I think that is quite right.

Q.—Then, Mr. Fackler's letter of January 30th, 1903. This was the year in which the C. P. R. stock was bought? A.—Yes.

Q.—But the C. P. R. stock was sold at a profit? A.—Yes.

Q.—Some $400 or $600? A.—Yes.

Q.—This letter is addressed to the directors of the Northern Life Insurance Company. (Read and filed as Exhibit 314.)

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—"Impairment of capital is a handicap and suggests danger of insolvency." You realize that? A.—Certainly I do.

Q.—I will put a copy of that in as an exhibit. Mr. Fackler says in that letter that he has already suggested ways to the directors how friends of the institution can assist in getting rid of the impairment? A.—Yes.

Q.—What ways did he suggest? If that was by correspondence I would like the correspondence. A.—No, it was by conference.

Q.—What was his idea? A.—To get someone interested in the company to advance the money towards helping out with the expenses to be recouped in the future by a small return of renewal commissions, and practically by renewal commissions, without creating any liability directly to the company.

Q.—His idea was to take the expenditure out of the years in which the impairment was being created by a payment into the company and then spreading it over future years? A.—Spread it over future years.

Q.—A scheme that is known in the insurance business? A.—He said it had been done by several companies in the United States.

Q.—I think it has been done in Canada, as we have found out. Was that done? A.—That was done.

Q.—Have you got the agreement that was entered into? A.—I think I have got some of those agreements. Here is the agreement complying with his draft.

Q.—This is the agreement dated the 28th day of August, 1903. Have you a copy of this? A.—There is a copy in the minutes, I think, of the draft.

Q.—No, I think not. There is a short draft submitted by Mr. Fackler? A.—That is practically the same thing.

Q.—This is the way it reads: (Agreement dated 28th August, 1903, between the Northern Life Insurance Company and Mr. John Ferguson read, and a copy filed as Exhibit 315.) Now that was an assignment to Mr. Ferguson of a commission in respect of future business which he was not going to earn in any other way except by paying this $10,000? A.—He was to be recouped that $10,000.

Q.—Was the receipt of that money from Mr. Ferguson shown in your returns? A.—That money was placed to the credit of the different classes of expenses where it was intended to be; a portion of it would go to commission and some to travelling expenses and so forth.

Q.—That would be allotted to certain accounts? A.—Certain accounts.

Q.—Will you tell me what accounts that $10,000 was allotted to? A.—It was not all recived at once.

Q.—Where is the account that shows it? A.—The 1903 cash book will show.

Q.—I see there are dates written in pencil at the top of this; 12th July, 1905, has the same idea been used as in other years? A.—The same idea. "John Ferguson, 1903 commission $1,200; advertising $100."

Q.—In the cash account for August, 1903, you find a receipt, is it? A.—This is the income.

Q.—Showing a receipt from John Ferguson of these sums which are applied as stated, $1,200 to commissions. That is agents' commissions? A.—Yes.

Q.—$100 to advertising? A.—Yes.

Q.—$360 to— A.—That is $300, I think, to field supervision. $50 on account of postage. $150 on account of stationery. $150 medical fees, and rents $50. That makes $2,000.

Q.—So that $2,000 was applied on that date in reduction of certain expenses? A.—Yes.

Q.—So that your expenses for the year did not show as high as they really were? A.—Yes.

Q.—When is the next payment? A.—In September, the same way.

Q.—At the end of September, 1903, the following sums were credited to Mr. Ferguson and applied as stated? A.—No, Mr. Ferguson paid them on these accounts.

Q.—Not credited to him but received from him? A.—Received from him. $1,150 on commissions; $350 on field supervision; $100 on stationery and printing; $150 on rents; $50 on advertising; $200 on medical fees. Another $2,000 that should be. Then each month was the same way until we went through the $10,000. For five months from August to December.

Q.—You divided those payments among the different items of your expense account? A.—Yes, that is the way we did it.

Q.—How did you show that in your annual return to the Government, did you show the receipt of that as income? A.—We showed the receipt of that money going to the credit of those accounts in our ledger.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

MR. LANGMUIR: Did you show it as a liability? A.—No, it was not considered as a liability, only as a future liability, the same as an agent.

Q.—It was a present liability? A.—The same as a renewal commission would be to an agent in future years. It just ranked the same way I think.

MR. KENT: In the return to the Government it was shown as so much less expense than it really was? A.—It was less expense that year and would be a little more further on.

MR. TILLEY: You reduced the items of expense by so much, you did not show that as income? A.—No.

Q.—And you did not show the Government that you owed Mr. Ferguson these renewal commissions in the future? A.—No.

Q.—And that was done? A.—To help out the impairment.

Q.—To take $10,000 out of the expenses of that year and spread it over some future years? A.—Yes, that is it, to help us out of the impairment of capital.

Q.—That was a transaction that was evolved for the purpose of misleading? A.—No, not for the purpose of misleading; it was evolved for the purpose of getting out of the impairment of capital, It did not mislead anyone.

Q.—Oh, yes; in the first place you misled the Department at Ottawa? A.—No, we did not.

Q.—Your return is supposed to show everything you received by way of income, and you did not show that money received from Mr. Ferguson? A.—Well, our return won't show every money received as income because we very frequently receive back commissions that we have advanced to men and gone to the credit of commission account.

Q.—But you do not pretend that under your return to the Government you are not presumed to state fairly what the expenses of your company are, what they amount to, and to show income received in such a way as you received this from Mr. Ferguson? A.—It would show our expenses as less than they actually were; spread out the expenses over two or three years.

Q.—In that respect your return was not correct? A.—Well, we did not think it was necessary.

Q.—But this is a sworn statement saying that your income is so much and expenditure so much? A.—Yes, well our expenditure has been recouped by so much.

Q.—Your expenditure was the amount you showed, and more? A.—Our actual expenditure for that year was more.

Q.—And your income was more? A.—Well, that balanced it.

Q.—The income was not balanced by this expense, but by the liability to Ferguson in future years, and that was not shown? A.—That was not a present liability.

Q.—It was a present liability payable in the future? A.—No, the agreement does not say so; it was a distinct understanding that he just bought those future renewal commissions

Q.—He bought an asset of yours to come in hand at a future time? A.—We did not look at it in that light.

Q.—Why did you go to an actuary to get him to work out such a scheme as that for you? A.—Well, we thought he was a man accustomed to all the—

Q.—All the tricks of the trade? A.—All the vicissitudes of a life insurance company and it was evidently a serious handicap to the company to have an impairment.

Q.—Had you ever put through that transaction before? A.—No.

Q.—Have you done so since? A.—Only what we have done with Mr. Ferguson.

Q.—Have you done it since with Mr. Ferguson? A.—Since that one transaction, yes.

Q.—How many times? A.—It has been done right along, and he has being repaid back; he gets his cheque every month for the renewal commissions that come in.

Q.—How much did Mr. Ferguson give you after that date? You have said there was $10,000, $2,000 a month for five months? A.—Yes.

Q.—How much more has he given you? A.—Another $10,000 for the next five months. Altogether the Ferguson account stood at the end of the year at about $39,000, but only payable on each $10,000 at 2 per cent. and no case to exceed 7 on future commissions and he has been paid back every month his proportion.

Q.—You are not giving me the state of that transaction with the particularity that I require it. You say that he paid out $10,000 in 1903 and that was the first year he paid out anything? A.—Yes.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—And at the end of 1903 there was $10,000 due Mr. Ferguson, payable out of future commissions? A.—That is correct.

Q.—And that transaction was not shown in your return at all? A.—No.

Q.—Then in '04 was anything paid back to Mr. Ferguson? A.—Yes, we began to pay back in 1904 according to that contract 2 per cent. on renewal commissions.

Q.—And you paid him back how much? A.—I paid him back on that contract about $4,000 or $5,000.

Q.—So that there is still about $5,000 due Mr. Ferguson? On that original contract? A.—Yes.

Q.—That is Contract No. 1? A.—Yes.

Q.—Where is Contract No. 2? A.—They are all of the same kind. I have got them all here. Just $10,000 at a time.

Q.—You produce 5 more agreements, in the same wording exactly are they? A.—Very nearly so, except the last ones are only one per cent., he only gets one per cent., in order not to make the expenditure too large.

Q.—These different contracts are dated 26th February, 1904, 19th August, 1904, 24th January, 1905, 12th July, 1905, and 23rd February, 1906. Were these agreements always shown in your minutes? A.—Yes, there was a resolution always to renew the arrangement with Mr. Ferguson, each time; voted by the Board of Directors. The matter was thoroughly discussed by them and considered the best course in the interest of policyholders and shareholders, to get out of impairment of capital as rapidly as possible.

Q.—And if your company had not entered into this arrangement at a certain stage, it would have been insolvent? A.—No sir.

Q.—The whole capital would have been wiped out? A.—No sir, not by any means. Our impairment of capital would have been probably $50,000.

Q.—At what date? A.—Now; if we had never had a dollar.

Q.—Your impairment now is about $20,000 and that is not taking into account agents advances and so on which, I think, fairly, would bring the impairment up to about $40,000 at the end of last year? A.—Those Agents' advances are good.

Q.—But they are an unsafe asset to be counting much on? A.—They will pan out all right.

Q.—If that is correct, if the impairment is about $40,000, you say there is now owing to Mr. Ferguson $30,000? A.—$30,000 odd.

Q.—$30,000 and $40,000 would make $70,000? A.—Oh well, I don't think you ought to take the agents' advances out. It was an asset.

Q.—At the end of each of these agreements you entered into a new agreement, did you? A.—Yes.

Q.—And he continued to advance $2,000 a month? A.—Yes, one year it was $1,500. We reduced it in 1904, we got $1,500 for one term, instead of $2,000.

Q.—He would advance that amount each month and then you would repay him each month out of agents' commissions? A.—Yes, and that was charged up as agents' expenses.

Q.—So that every month since that first agreement came to an end he has been paying in and you have been paying back? A.—Not every month, because each time was for five months.

Q.—But that has been the way it was carried on? A.—Yes.

Q.—He would pay in to you and you would pay back to him? A.—Yes.

Q.—The result of his paying in to you and you paying back to him would keep the expenditure just so much lower? A.—Just so much lower.

Q.—And not show the source from which it was coming? A.—No.

Q.—And at the present time there is about $30,000 owing to him? A.—Yes.

Q.—And he is still doing it? A.—Well, this last one is not quite completed. It will be just expiring now.

Q.—And he is still paying under the last one? A.—He did last month.

Q.—Is the account higher now than it has been at any time, $30,000 you say it is now? A.—It is over $30,000; it has gradually grown because we would not pay him back as much as he gave us, certainly not.

Q.—How much more than $30,000, is it? A.—I think it is about $39,000 the total.

Q.—Almost $40,000 owing? A.—Yes.

Q.—And that is a liability that is not shown in your statement at all? A.—No, we did not treat it as a liability at all.

Q.—And these documents were drawn so that you would be relieved from having to treat that as a liability? A.—Yes.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—That was the express object of it? A.—Yes.

Q.—To have a scheme whereby he would give you money now and get it back from you later on and you in the interval would have the asset without the liability? A.—There would be no object if we showed it as a liability, because we would still be impaired.

Q.—Your object was to put through a transaction so that you could appear to have more assets than you really had by deferring the payment to him?

MR. KENT: In reality it is the purchase of an annuity; I cannot see it in any other way.

MR. TILLEY: That is practically what it amounts to.

MR. KENT: If the company is wound up this must be paid before the shareholders get anything. Therefore it is an annuity of a special kind.

MR. TILLEY: Chargeable on the renewable commissions; chargeable on a special fund? A.—All our agents have a renewal commission that extends right along regularly. We do not count their renewal commission, that they are entitled to in the future as a liability, and we created this the same way. We did not consider it a liability until the renewal commission came in. Mr. Ferguson took his chances knowing it was pretty safe and sure that renewal commissions would come in. He took his chances that that would be payable out of the renewal commissions, because they would come in, and we did not consider it a liability.

Q.—If you took credit for renewal commissions you would have to show that liability to your agents? A.—Yes.

Q.—The agents contract merely is to be paid his percentage out of those premiums; if the insured dies he does not get it; his bargain is conditional on the premium being paid on a particular policy; but this is not that at all; the whole premium income is pledged? A.—Only the renewal premium income.

Q.—It is a transaction, just as we have had in the other case, for the purpose of deceiving the Department and the public and the policyholders, is it not? A.—We did no treat it in that light.

Q.—The Department does not know the facts, nor do your policyholders? A.—Well, perhaps not.

Q.—Then is not the object of this return that the Government requires to be made that the Department and the insuring public shall know the condition of the company, know what it is paying for expenses, know how it compares with other companies? A.—Well, some years our expenses show more than they properly are.

Q.—Now they are showing a great deal less, intentionally? A.—But here they show even more because we in the future get back agents' balances and apply it to the same account.

Q.—You subsequently pay Mr. Ferguson and charge it to agents' commissions? A.—Charge it to the renewal commissions.

Q.—So that your renewal commissions in subsequent years show more than they should be, that is you have transferred your expenses of the year 1904 to some other year? A.—Yes, a portion of it, but only a small portion.

Q.—Then a person examining your returns and comparing your returns would not know the fact that your expenses in 1904 were really larger and in 1907 or 1908 smaller? A.—They would not be very much larger because we are paying back.

Q.—Here is Section 19 of the Act (Reads.) Nothing could be plainer than that? A.—I think we complied with that.

Q.—You did not show your expenses for the year? A.—Because we got back a certain portion for expenses.

Q.—You allotted a certain income against a certain expenditure and let it drop out of the books altogether; that is not right? A.—I don't see anything wrong in it.

Q.—I think probabaly if you think it over, you will see it? A.—It didn't occur to me that we were doing anything out of the way.

Q.—I will put in, your honors, copies of these agreements. I think we had better have copies of them all, and then I would like a complete statement showing the application of all the monies received from Mr. Ferguson, from month to month and the state of his account, from month to month? A.—I will do that.

MR. KENT: If Mr. Milne will put himself in the position of an intending policyholder, who is judging of the company, he is bound to assume that it is doing a good business and making money at the very time when the company is—I won't say with intention—but still, as far as he is concerned, he is deceived; he thinks your company is making money when it is

not making it. It seems to me very clear from a policyholder's standpoint that he would be deceived and I have no doubt a lot of your policyholders have been deceived by that method of treating your accounts? A.—Excuse me, our policyholders make money by this, because of the very fact of getting out of the impairment of capital, that has enabled us to write more business the last year than we ever did before and that increases the business and puts us on a good footing.

MR. TILLEY: You may be doing something that is good for them, but you are not doing it the way the law says it should be done? A.—The impairment of capital I look upon as an unjust imposition, a hardship that we had to overcome and we had no 25 per cent. bonus on our stock to help us out like the others did that started.

Q.—There is a great deal in what you say but when you were met with a difficulty, you should not have employed your consulting actuary, I think, to give you means to get around the Act. A.—We did not employ him; we asked him in the discussion of our annual report and he suggested something of this kind and he said it had been done by numbers of other companies, and showed us right there.

MR. KENT: Is not the sound common sense of your Canadian directors sufficient to get over the difficulty and with much more satisfaction to everyone concerned? My conviction is that no company has a right to deceive its policyholders even to put money in the policyholder's pocket. He has a right to know what is going on; if there is money for him he has the right to know where it is coming from. We have seen cases where a man has refused to accept money that he could put in his pocket. A.—No one got any benefit from this thing, not a dollar, but the company itself.

Q.—It might have been a benefit to the policyholder on behalf of whom you are making this complaint; it is quite clear that your intentions were of the best, but there is a certain place that is paved with good intentions that we hear of very often. A.—It was very thoroughly discussed by us all and unanimously considered that it was in the best interests of the company, policyholders and everybody else.

MR. TILLEY: Have there been any other discussions of that nature with the company? A.—No.

Q.—No other arrangements made at all to in any way conceal the true state of affairs? A.—Well, we don't think we were concealing.

Q.—Let us assume that that is concealing; has there been any other, if that is concealing? A.—No, there is nothing.

Q.—You seem to have several disputed claims in your company, compromises? A.—We had two.

Q.—Is that all? A.—That is all.

Q.—What was the ground of objection in those two? A.—They both were in Montreal. We insured a lady by the name of Wortelski for $6,000, if I remember properly, divided up in favor of different ones of her family. She died very shortly afterwards. We felt very well satisfied that false representations had been made to us in the securing of the policy. We set a detective to work and we found there were. But we considered that it would be, perhaps, difficult in that province to carry on a law suit and really make anything out of it and we compromised it, they compromised it.

Q.—At what per cent.? A.—50 per cent.

Q.—What about the Finch case? A.—That was $1,000.

Q.—Two policies for $1,000 each? A.—No, I think only $1,000. He was a drinking man and we didn't know it. He went West and at Revelstoke was shot in a brawl and his premium was past due, but the point was they had mailed the money just the day before the 30 days expired. It did not reach us until a week or ten days after and we had declared the policy void, we had marked it as lapsed.

Q.—But you got the premium? A.—Yes, after the days had expired we marked it lapsed and we didn't consider we were liable at all.

Q.—How many years had the policy been in force? A.—Only one. Only got one premium.

Q.—No surrender value to it? A.—No.

Q.—What did you do with that case? A.—Rather than fight it, we thought it might be held by the Court that the fact of them mailing the money the day before the 30 days expired might be against us and that

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

was compromised at 50 cents. We have tried to keep clear of litigation in every case.

Q.—What about the Gardiner case? A.—That was also compromised. We believed we were imposed on there.

Q.—You tried to compromise that at 50 per cent.? A.—Yes.

Q.—And you were sued? A.—I forget the proportion, but we compromised it; there is no doubt there were false representations made to us. Heart trouble; he dropped down dead the next day after.

Q.—I suppose you give rebates in your company? A.—Well, I am very sorry to say we do. Not with my consent, but they do it.

Q.—Over the counter? A.—No, sir.

Q.—Under the counter? A.—No, nor under the counter either.

Q.—How does the man get it? A.—Through the agent. We tell the agent not to give it.

Q.—Yes, that sounds well. A.—Rebating is one of the greatest curses we have got in the business.

Q.—There is a unanimous opinion on that? A.—And I have been pressing that matter pretty strongly, trying to get rid of it.

Q.—And I suppose it has cost you a lot in discharging agents who did rebate? You have lost a lot from that source? A.—No, not much use discharging them; only hire another who will do the same thing over again.

Q.—You cannot employ an agent who will carry out your instructions? A.—I don't believe we could. I believe everyone will do it.

Q.—The public think pretty hardly of insurance agents, but I think you want them to think harder? A.—There may be one or two greenhorns starting in that won't rebate, but they won't be long.

Q.—As soon as they get educated? A.—Yes.

Q.—I see your Board approves of a species of rebating, once in a while, doesn't it? A.—How is that.

Q.—A party over 60 years of age, you don't insure after 60? A.—Oh yes, as high as 65.

Q.—A party 61 years old, if he will take out $2,000, he will be allowed to insure at age 60, that is rebating, is it not? A.—No, there is something wrong about that. That is not so. We never vary. He would have to pay the rates. That could not be possible. There is something wrong in the minutes there.

Q.—We will look it up and if we are wrong, say no more about it, and if we are right, bring it up again. A.—We want to be right on both sides.

Q.—On page 50 of the first minute book it was moved by Mr. Ferguson, seconded by Dr. Balfour, referring to a letter from D. Mitchell of Hamilton, stating that Mr. So and So wants to apply for insurance, he is 61 years old; the tables are only as high as 60? A.—Yes.

Q.—It was moved and seconded and carried that further information be obtained and if the amount desired exceed $2,000 that he be permitted to insure on payment of a cash premium as if he was of the age of 60 years only? A.—Well, it might possibly have been that we would rate him at 60, insure him as if he had gone in at 60. The wording of the resolution must be wrong because he could not possibly have been taken, never a case where a man was dated back unless he would pay back premium.

MR. KENT: Any man can date back if he pays the back premium? A.—I have, in one or two cases dated them a year back. Then he would pay the year back, he had no risk for the previous year.

MR. TILLEY: That would be a beneficial arrangement for the company if the man would pay the back premiums? A.—Certainly.

Q.—Do you pay your agents by bonuses? A.—Occasionally. Sometimes towards the latter part of the year we may offer a bonus if they produce a certain amount of business, as a little inducement to them to work a little harder.

Q.—15 per cent. if they get $200,000 before the 31st December? A.—15 per cent. above their ordinary commission.

Q.—That 15 per cent. means an additional 15 per cent. on their work for the year? A.—Are you sure that is 15, or 5? I never knew a case of more than 10, and it might be 5.

Q.—I notice here one of 10. Let me understand what it means if he gets 10 per cent. Does that mean 10 per cent. on his year's work? A.—No, 10 per cent. on the premiums for that particular month, if he reaches a certain limit.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—And that is usually done about the end of the year in order to get them to increase their efforts? A.—Yes, and only upon condition that the premiums are paid in cash before the time and about one-third of them accomplish it.

Q.—That is an additional inducement to an agent to give a rebate?

MR. KENT: That is just the reason of rebates.

MR. TLILEY: One of the greatest causes of rebating; that is what gets the public and the agent into this bad habit. Because before a certain date he wants to get a certain amount, he gets pretty near that and then he has to get the balance if he loses a little? A.—Well, that might have some influence; but we have got to have the business; somebody else will do it, if we don't.

Q.—You say the same as the agent does, if I don't give the man a rebate some person else will and get the insurance and he goes on doing the same. You are setting the example to the agent. A.—The reason is the pressure amongst the companies to get a certain volume of business, which has been brought on by giving commissions, and the American companies coming in and giving bonuses.

Q.—That has been to a certain extent the cause of policies lapsing and not being taken? A.—Yes.

Q.—And the initiation of a good deal of that trouble is in the bonusing of agents? A.—Not so much the bonus as the regular rebate in the regular every day business.

Q.—I don't think one can agree with you in that; when they are going to get the bonus that is so much more to give away? A.—I have not found that there is any more rebating in that.

Q.—Don't you believe there is more rebating in the months of November and December than in any other month? A.—I don't think I have found it so with ours; no, because they have to get a certain amount in and if they rebate they cannot send in their money.

Q.—Many agents are paid a certain higher percentage if they get a certain amount in the year. Doesn't that make it more strenuous in the last days of the year? A.—Our bonus is more to help an agent out of his shortage on his commission account.

Q.—What would you say was your standard top price to agents? A.—75 per cent.

Q.—In exceptional cases up to ɛ per cent.? A.—There might be some cases where an occasional 5 per cent. was paid.

Q.—And in one or two cases 85? A.—No, I don't think we have a case of 85.

Q.—With expenses paid and the bonus of 10 per cent.? A.—Oh well, they might be where there was a bonus for those two months and the amount of business we would get for the bonus would be a great deal more than we would have to pay out.

Q.—Do you ever get hold of one of these agents for an American company and give him the whole of the first year's premium? A.—No, I had a case where one of the American companies gave 110 per cent. of the first premium.

MR. KENT: Would you be in favor of excluding that company from Canada? A.—Well, I would not like to say that. If they excluded them they would have to exclude a good many.

Q.—Would it be a good thing to exclude all of them from Canada? A.—Well, there should be a law made that would counteract rebating.

MR. TILLEY: How would you carry out the law, make the company pay the policy and return all the premiums? A.—Make an anti-rebate law and I would make the man who receives a rebate—

Q.—He does not know the law like the agent and the company. Why not make the company pay the face of the policy and return all the premiums? A.—How do you mean the company pay the face of the policy?

Q.—As a penalty on the company? A.—I would make a penalty on the company and on the agent, both.

Q.—Would that be a good penalty, to make them give back the premiums and pay the policy as well? A.—No, I think the man who takes a rebate is as much to blame as the man who gives it.

Q.—Oh no, he does not know the law? A.—But there is no law against rebating. There are men, to my certain knowledge, in your city of Toronto who get their policies every year for 25 per cent. of the premium and they go from one company to the other, regular rounders, and carry about $10,000 of insurance.

Q.—Will you give us confidential information of that kind? We will appreciate it. A.—Well, I wouldn't

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

like to mention names, but I know it has been done. I hope the result of this commission will produce a law against rebating.

MR. KENT: Do you think the companies who have left the straight and narrow way for the broad and pleasant path of rebating, have been seduced altogether by the bad example of the American companies? A.—Well, I would not altogether say that.

Q.—Is it not possible that there is a little of the old Adam on this side of the line? A.—I fancy so, but the companies cannot check it. It is impossible, because all of the companies would have to combine together. The only way is by an Act.

Q.—You believe that Canada would be overrun by the American companies if the Canadian companies stopped rebating? A.—They would get the business.

Q.—And they are driven to do it simply because they feel that they cannot get it in an honest way? A. —Yes. I took a good deal of trouble to communicate with people in the States about the rebate laws. I have got the Acts of most of the States and I have been strongly urging the Association of Managers for the last two years to get legislation to prevent rebating. We would all like to see it abolished and we could do business a good deal cheaper, the agents at 25 per cent. less commission would make more money than they are making to-day.

Q.—Did not the Ontario Government pass an Act against rebating? A.—No, not to my knowledge.

MR. TILLEY: There was an Act in force.

A.—How long ago? It must be 12 or 15 years ago. They passed an Act fining an agent if he rebated on a policy over $5,000. But it wasn't enough to do any good.

Q.—Then the Life Association, I think, sent out petitions to have that repealed? A.—That was before my day, as far as insurance was concerned.

Q.—But you were in the Association? A.—Yes, there was no Association then.

Q.—You say that the not taken policies and lapses can be accounted for by the rebating? A.—A portion of them.

Q.—I see you have a rule here on page 13 of your book that where a policy is not taken the agent will be held responsible for the payment of $5. A.—Yes, we charge that up against the commission.

Q.—To make him more careful? A.—Yes.

Q.—I notice a case where you refused to depart from your rule? A. —Yes.

Q.—And to that extent the object is a proper one, you say it is to make the agent careful about sending in a policy that is not going to be a policy for the company? A.—Yes, it is to make him get the first premium.

Q.—I suppose the policy costs the company something? A.—Yes, the $5 is to cover the cost of getting the policy out and the medical examination.

Q.—That is not a uniform rule with companies? A.—I don't know.

Q.—I think not. We have not met it at any rate. Then I will put in a statement where we have computed the amount of income and expenditure of your company, making the amount received for premiums $694,000 about. Interest and dividends $104,000. Calls on capital $215,350. I notice that your calls on capital given in the Blue Book are a little different. In your return to us it is $213,350. A.—That must be wrong.

Q.—The Blue Book must be wrong? A.—Yes, that must be a mistake.

Q.—Then you have an item here, profit on realization of securities? A. We sold the C.P.R. Is this at the end of 1905? No, that is this statement I sent you, we sold the C.P.R. stock and made a gain of $400 at that time.

Q.—And a small gain on Bell Telephones and a gain on Toronto Electric and on Dominion Telegraph? A.—The gain on Toronto Electric is by the addition in market value. We charged that up at the first of the next year.

Q.—The expenditure for death losses, surrenders and other payments to policyholders $93,601.92. Organization expenses $10,607.14; what does that cover? A.—The first organization expenses in getting stock. Commission paid to Mr. Caldwell in getting stock and the cost of getting the Charter, some $500.

Q.—Dividends to stockholders, that is the dividend in '96 when it equalized the money deposited in the bank? A.—Yes, scarcely a dividend.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—It was treating the monies as belonging to the shareholders up to a certain date and then giving them interest on their money? A.—Yes.

Q.—Commissions, salaries, and so on, $294,162. That seems large by comparison? A.—That includes everything that we paid to outside men and all.

Q.—As a matter of fact that should be $40,000 more because Mr. Ferguson has been paid about $40,000 that is not included there? A.—Well, of course, you can figure it that way, if you wish.

Q.—Miscellaneous expenditure, $77,000. Total expenditure, $488,532.11. Impairment of capital, $21,926.64.

MR. WILSON: I do not understand that the witness assents to the statement that what is paid Ferguson is added to the comission.

MR. TILLEY: I thought he did? A.—The very fact of our helping ourselves with that expense was what enabled us to evolve this peculiar by-law by which we will get premium enough to wipe out all that, do you see? It will help us to get that 25 per cent. on our stock and make our stock worth that much more.

Q.—That is 1905, the by-law, and the other 1903, and the money under the by-law has not been received yet to accomplish that purpose? A.—Pretty nearly.

Q.—Your total general expenses, which would include the organization, the commissions and the miscellaneous expenditure, that eliminates the bonuses and dividends and amounts paid to policyholders, would be $382,020.69, and the amount of insurance now on the books is $4,673,488? A.—That is about right.

Q.—That is the average cost is about $82 per $1,000. But, of course, that does not allow for the death claims you have paid and policies you have put on the books and that have gone off as lapses. You say your cash income during the period amounts to $797,809.48? A.—Yes, and our outgo.

Q.—$486,415.38? A.—Does that correspond with that?

Q.—I was just taking the general expenses. I do not suppose I need put that statement in; I have referred to the particulars that are essential. Now your new premiums in 1905 were $37,448.81? A.—$113,920.

Q.—That is the renewal? A.—Yes.

Q.—A renewal of $113,991.70? A.—Yes.

Q.—Then the general expenses would be $58,355.58? A.—Yes, $56,000 management and $2,000 for taxes and so forth.

Q.—Yes, I have put that at $58,000? A.—That is right.

Q.—I suppose you would agree in dividing the expense of getting new business as between new premium and renewal at 10 to 1? A.—I have never figured it in that way.

Q.—Have you figured it at the rate of 15 per cent. for renewals? A.—The way I have figured the cost of the new business is, Mr. Blackadar's method is to give a credit of 15 per cent. in renewal premiums for taking care of the old business and investing the monies. Deducting that from the total expenses that made our expenses last year about 110.

Q.—Figuring it as I did, dividing it 10 to 1, it would be 119.50, but it would be somewhere between 110 and 120? A.—Well, I figured myself 110. Now if the Ferguson money had been taken into account that we have received last year, over and above what we paid it would have made our expense about 123 and that is even less than some of the older companies in Canada. We have economized in every way we could.

Q.—I was not going to comment unfavorably on your expense rate. You seem to have economical management in a great many ways. I notice that the total business issued since you commenced business was $8,920,782. Lapsed up to date $3,960,600. That means that there has been a lapse of about 44.4 per cent.? A.—Yes, all of that. That is unfortunate, it is a bad feature. There are more lapses with a young than with an old company because of the pressure brought to bear on a young company's renewals. They switch them off and tell them, you are no good and so forth.

Q.—Surely not? A.—They do. I had a man one time, to give you an example, he counted our impairment until he got it over $200,000 and said that institution is no good, and switched it away.

Q.—He did not count the Ferguson money? A.—That would have been so much worse.

Q.—You gave us a statement, Mr. Milne——— A.—I tried to give you a statement of everything.

Q.—Yes, you gave us very satisfactory returns; they are very complete. You have handed us one statement

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

here as to lapsed policies. This shows that in 1901 you had a very large lapse? A.—Yes.

Q.—You had a lapse of 66.98 per cent. of the policies issued? A.—No, that is the lapses continued over the four years.

Q.—1902, 3, 4, 5? A.—Yes.

Q.—That is up to this date 66.98 per cent. of the policies issued in 1901 have lapsed? A.—Yes. I can explain that to you.

Q.—Is not the explanation right here? When you return under your advances made to agents and cost of business, that that amount in 1904 that you advanced? A.—1900.

Q.—1900, was 104.2 per cent. of the premiums; that is to say you were crowding your agents at that time? A.—That requires an explanation. In 1899, the year before, that was the year that the change of basis of reserves was made from 4½ to 3½ to commence at the first of the year 1900. Consequently the 1900 rates would be higher; the rates had to be made much higher. Now, I suppose we did like many other companies; the agents sent in word in December that they had promised certain people the old rate and we allowed the company to do that for a couple of weeks and that was all thrown into the 1899 business. Consequently the commission that was due on that extra business was not paid until the next year and it made the next years abnormal commissions. These amounts for those two years ought to be added together and divided in two. To make it right. It made it less in '99 than it should have been and more in 1900. Then a good deal of that business that was passed in in that way lapsed.

Q.—Your rate in '99 was 89.4. That is pretty high? A.—Well, that is so.

Q.—In 1904 you got it down to 66.1? A.—In 1901 it was 89 also.

Q.—All those years were fairly high? A.—They were high, but you must remember that included all travelling expenses and everything charged up to commissions; all expenditures, bonuses and everything that was charged on commissions.

Q.—Mr. Milne has given us a very complete statement of their lapsed policies and as to cost of business. I will put in those two as one Exhibit (No. 316). Do you credit anything to a policyholder whose policy has lapsed if he does not apply for it? A.—No. We use every effort to keep him on. Offer to lend him the premium and so forth.

Q.—But under your policy he must apply for it to be entitled to it? A.—To get any cash surrender, yes.

Q.—And you do not tell him of that right on his part? A.—No, I am a little wrong there, we have one policy, our ordinary life policy is automatic. As long as the reserve is there, sufficient to carry his premium it will be done. But that is the only one. I didn't approve of the plan but I did it to meet competition.

MR. KENT: I suppose nearly all these new fangled plans we learn about have been started in the same way, to have something new? A.—To try and get business.

MR. TILLEY: Or is it to try to get something that a policyholder cannot possibly understand? A.—No, we issue our circulars so that there can be no mistake in understanding it and our agents will explain it thoroughly.

Q.—No policyholder could sit down and read some of these new fangled policies and ever hope to understand them. I am not referring to your company? A.—The agents will explain them.

Q.—If you were going to depend on the agent's explanation you would be in worse trouble? A.—Well, if I found an agent misrepresenting a policy he would not be with me long.

MR. KENT: An agent did so to me and I lost money in consequence, and he was an honest man and represented the best company I knew at the time.

MR. TILLEY: You issued a 60 year annuity bond? A.—We never issued more than two or three of them. They didn't take.

Q.—5 per cent. guaranteed bond? A.—Very few of them.

Q.—Why don't you call them policies? A.—Oh, well, I suppose there are so many policies that they want to change the name. Bond sounds as if it were a better thing.

Q.—5 per cent. guarantee, that means what, that he is guaranteed 5 per cent. on all the money he puts in? A.—Yes, that is right.

Q.—That is the guarantee which you give? A.—But he pays for it.

Q.—Every advantage you give a man is computed actuarily and he is charged for it? A.—Yes, every man pays for what he gets, sure.

MR. KENT: But generally a man thinks he is getting something he does not pay for. That is the secret.

MR. TILLEY: Even with the guaranteed compound interest policies? A.—Yes, he pays for it.

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—What is the idea of this adjusted indemnity policy? A.—It is a policy by which the rate is much cheaper, from the fact that when a man passes 60 years of age his policy decreases. He does not need the insurance so much then; his family is out of the way, married or taking care of themselves, and he gets his insurance till 61 at a much lower rate.

Q.—And if he lives over 76 he does not get any insurance at all? A.—Oh yes, it reduces to one quarter of the amount. He has enough to bury him and pay the doctor's fees.

Q.—You think that is about all he should get, a man who has been foolish to pay life insurance for so many years? A.—But he pays so small a rate. It is all calculated.

Q.—Is not that the sort of policy a man does not usually understand? Here is a man who has got a policy that appears to be for $1,000 on the face of it. All the figures are computed by reference to $1,000, and then at the age of 61 that policy commences to dwindle until it comes down to $250? A.—5 per cent. every year. That is all explained to him. It is a full policy until he is 61.

Q.—But he does not usually read his policy? A.—Oh well.

Q.—Better not read it? A.—Oh, no, I want a man to understand exactly what he is taking.

Q.—That should not be a popular policy? A.—It is a very popular policy with two or three companies on the other side and it is in my opinion the very best life insurance policy today. All the speculative features, profits and everything of that kind, should not come in. Insurance should be insurance straight and proper. I believe if we issued nothing but non-participating policies it would be far better. There would be no profits to bother with. The principle of insurance is to protect the family, there is no doubt about that, and the present age has departed from it.

Q.—Do you think the non-participating business pays the companies? A.—Well, there would be profit enough to run the company.

Q.—Do you keep your books separate as to participating and non-participating? A.—We do not, because we have very few non-participating.

Q.—Do you keep your accounts with your individual policies? A.—Oh, yes, on cards.

Q.—Would you give us samples of those? A.—Yes. Here are our three cards; the name and address, and notice card and ledger card.

Q.—I will put in the set as Exhibit 317. Please attach a statement as to how you compute each amount you put on the card. A.—This is just the premium.

Q.—You do not carry forward an account of profits and so on? A.—No, I have a loading book in which I carry forward the loading of each one, and the premium ledger, but we have not come to any dividend period yet.

Q.—You have a provision in one of your policies that if a note, cheque, draft or other obligation given for a premium is received and is not paid when due the policy shall thereupon cease without any notice or act of the company, but the liability to pay the note shall continue. A.—Yes.

Q.—And be enforceable, and then if it is paid and satisfactory evidence of good health given the policy will be revived. That should not be operative if the note matures in the 30 days of grace, should it? A.—That is if the man dies or how do you mean?

Q.—Supposing a note matures on the day that the premium is due, before the 30 days have started to run the agent gets a 10 day note from the insured and it matures at the end of 10 days and is not paid. That policy should not lapse until the 30 days of grace are up, should it? A.—Well, the 30 days of grace are given on every policy and if we take a note at all scarcely it would be for 30 days.

Q.—We met a case where a note was taken and matured in the 30 days and the company treated the policy as cancelled because it was not paid. A.—I would not do that. I would give him the benefit of the 30 days.

MR. KENT: You regard that as natural honest treatment which the policyholder had a right to expect. A.—Oh, certainly he expects 30 days. If that man died inside the 30 days.

Q.—A good many policyholders expect a great deal that they have no right to get and we cannot go by what they expect. A.—We find that out in communications with them. They expect almost everything.

MR. TILLEY: Then I will put in a copy of your claim papers without comment. (Exhibit 318.) And a copy of your Profit and Loss Statement for the year 1905. (Exhibit

50th day, London, June 29, 1906.

319.) A.—That is a new thing to us, that Loss and Gain, and I guess, from what Mr. Jackson said I misunderstood some of the questions and we remodelled it.

Q.—That is something that the Canadian companies have not been required to give. A.—Yes.

Q.—That is instructive to a company? A.—Yes, I think it is a great advantage to have it. It would let them know just where they were.

Q.—Matters are collected together for the per cent. A.—Yes, I rather approve of it.

Q.—Your loading for first year premium was 9,090. A.—Yes, in round numbers.

Q.—And the difference between expected and actual death losses was $2,338, the actual being about 56 per cent. of the expected. A.—In that year it was. It was a little large in that year in proportion.

Q.—That is something that cannot be controlled. A.—Yes.

Q.—Your total margins $11,428;

MR. MILNE: Practically I don't and your expense $36,333? A.—Yes.

Q.—318 per cent. of the margins? A.—Yes, that is big; oh yes. Can't help it.

Q.—It is instructive for you to know that? A.—Yes. Practically I have always figured something similar to this at the end of every year myself.

Q.—That represents a loss to the company of $24,805? A.—Yes.

Q.—Loading on renewal premiums $25,185; expenses, except taxes and so on, $22,022. Making a profit from your renewal business of $3,163. A.—Yes.

Q.—Actual death losses about 39 per cent. of the expected death losses, making a gain from that source of $19,600? A.—Yes.

Q.—No annuity claims that fell in that year, and your gain on interest was $12,072, about 52 per cent. of your total interest earnings. A.—Yes.

Q.—Your increase in market values $459. Reserves released by surrenders $11,930, and you allowed as surrender values $4,282, making a gain of $7,648. After what year do you allow surrender values? A.—After 5 years.

Q.—But you allow a paid up insurance at the end of three? A.—Yes.

Q.—Why do you make that distinction? A.—Well, simply because it has been the custom in all companies to do it.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—Some companies allow a surrender value at the end of 3 years. A.—Yes.

Q.—But you think the policy has not recovered itself then? A.—A policy does not recover itself in my idea until seven years. Seven years to get square, the way I figure it. The surrender value I don't think should be considered as a profit at all. I think that margin we have on surrender values should be carried into commission account to get new business with and should be credited to the general expenses. I think we should not count that a gain because you have got to get a new man and our cash surrender values in all the companies are too much.

Q.—You have not put in anything for taxes, repairs and investment expenses. A.—We haven't anything in that line. That is what Mr. Jackson said I had in that $2,700 and something and he said that meant taxes on properties that we had. I had the Government taxes in. He said that was distributed amongst this. I did not understand that.

Q.—What about investment expenses, ought there not to have been something charged up for your investment expenses? A.—That all goes into the general expenses. We keep a separate account of it. But in that statement it was put in the general expenses.

Q.—You do not keep your participating and non-participating business separate? A.—I don't think 5 per cent. of our business is non-participating.

Q.—What difference is there in the commissions paid to agents? A.—We pay them three-fourths of the commission that we pay on participating, and of course they will fight for the most money they can get.

Q.—What do you say about the necessity for the change of reserve that was made by the Government? A.—I think our reserves were altogether more than is necessary to protect the policyholders at the present time. I think it was a mistake, although the older companies argued it. I was not in favor of the change from 4½ to 3½ and now with the reserve it is altogether more than is necessary and I claim that there should be no reserve put up the first year.

Q.—Why? A.—Because we have none. It seems to me an unfair and unsystematic way. Better illustrate

50th day, London, June 29, 1906.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

it in this way; if we write a million of business and write it on the average policy, of $30 a thousand, which is about fair, and if we get it all in money, which we won't, we will get $30,000. Now we spent that $30,000 and a little more to get it. Now we are even. During that year about 4,000 out of that million will die from accident or some acute disease. Then we are $4,000 out. The Government steps in and says, you have got to put up $21,000. Now we are $25,000 out. Now with a new company we have to take that $25,000 out of capital which I say is radically unfair. With an old company it is just the same thing, it costs them just as much to get the business as it does us, but they take that $25,000 out of the surplus of the old policyholders to help them to make good their deficiency. The present reserve compels a company to keep more money as a reserve than is necessary. More money, I think, should be distributed as profits to policyholders. I think on a 20 year policy the reserves should not be full until the eighth year.

Q.—Then it is the early years of the policy that you think too large a reserve is requried? A.—Yes, I think there should be a full reserve after eight years.

Q.—What reserve would you recommend for the eighth year? A.—I have given that a good deal of consideration and I wrote to all the States in the Union, as I said before, in reference to their anti-rebate laws. They vary a great deal. Some of them make a fine on the company and the agent; some make the policy void. I think that an Act of Parliament, if it could be done, if it is within the Dominion right, to make no discrimination, fine the man who does it, fine the company if they know it, and have it put right across in red letters across the face of every application and policy, so that there would be no misunderstanding, that if they take a rebate or any consideration for the first premium, that policy might be declared void. Some such legislation as that may not entirely eradicate it, but it would largely minimise it and it would bring it right in front of the man who was asking for it.

Q.—What would you say about investing powers? A.—I don't think it is wise to restrict them too closely; I think we should have some wider Act.

Q.—What should you be allowed to invest in, that you cannot now. A.—I would hardly be able to give you that off hand.

Q.—If you care to make up a memorandum at any time and send it in, it will be considered. A.—When I ordered the C.P.R. stock, I thought it was all right. I had not looked carefully. As soon as I found it out, we sold it and I am sorry we had to sell it. We sold at 133 and it is now 160. We made a profit on it; we bought at 124, I think.

Q.—Is yours a contract with an agent to guarantee a salary of a certain amount? A.—Yes, that is a salary contract.

Q.—If he secures a certain amount you will give him 25 per cent. additional, at another stage 33 1/3rd, another 40 and another 50. A.—That is a new contract I got out. They want a little money. We watch those contracts very closely. It has proved very beneficial with some, it is an inducement to them to get the business. It don't give them a chance to rebate very well. They only get $25.

MR. KENT: Would you be in favor of a standard form of policy, if all companies were restricted to a few standard forms? A.—I think that would be a mistake. You cannot make a standard policy, I don't think, because there are conditions of certain people that they want a policy for a certain length of time, and on certain conditions. We have to make a policy to suit their desires. What they want to buy we have to try to find.

Q.—The difficulty is, there seems to be a desire on the part of nearly all companies to formulate a policy that is very difficult to understand. That gives the agent a chance to say anything he likes and the policyholder is none the wiser. A.—I don't think that accusation is hardly fair. I don't think that the companies want to introduce a policy that cannot be understood. I think the main object is to thoroughly explain it. Now when I issue a new policy, I issue a circular explaining just what it is. Some agents may misrepresent but on the whole there is no object in issuing a policy to create litigation afterwards.

Q.—I speak feelingly in the matter, because, as I have said once or twice, I was taken in myself and I am sorry to say by a friend. A.—That may happen.

50th day, London, June 29, 1906.

MR. GEARY: I understood you to give your opinion in favor of non-participating policies. You have adhered to that, have you, ever since you went into insurance? A.—I did not pay very much attention to it the first two years, but from experience I have come to the conclusion that if insurance got down to the old basis of no profits, it would be better.

Q.—Did you, on arriving at that conclusion, make any special effort to push the non-participating business? A.—I issued a special circular to our agents. I can furnish a copy of that.

Q.—How long ago was that? A.—Not very long since. But I issued one some four or five years ago.

Q.—To press for non-participating business? A.—Yes, and showed them the profits to the policyholder and the advantages of non-participating business.

Q.—What was the result of that? A.—It didn't amount to much.

Q.—Do you think the agents obeyed their instructions? A.—Oh, they will sell the participating policies because they get a larger margin of commission.

Q.—You think that is the secret of the whole thing? A.—Practically so. They will never sell the non-participating unless a man wants it. Unless he asks for it. Or, in a case like this, where they are pressing a man for a policy, and he thinks it is too high, they may at last resort, drop into a non-participating, where the rates are a little lower, and they give it to him because he wants it.

Q.—Why did you confine your circularizing to your agents? A.—Not exactly to our agents. The circular is printed and bundles of them sent to the agents to hand out.

Q.—That is the same thing; they would do it or not, as they wished. Did you advertise your non-participating policies in the newspapers? A.—No, newspaper advertising is rather expensive, but I will tell you what I do with a circular of that kind; I give my instructions to my mailing lad that for several months after a new circular comes out it is put into every letter we write. Policyholders, strangers and everyone else gets it. That is better than newspaper advertising.

Q.—You consider that you did what you could to advertise your views? A.—Yes.

Q.—And you have small results? A.—Very small results.

Northern Life Assurance Co.
(Mr. Purdom, Mr. Milne, Ex'd.)

Q.—Can you suggest any way in which this could be offered more forcibly to the attention of applicants? A.—I don't know, as long as there are participating and non-participating—

Q.—And agents? A.—Yes.

Q.—Could the commission be put the same? A.—The loading won't allow that.

MR. KENT: It seems to me the loading should be increased on all non-participating policies? A.—Well, I was very much handicapped there.

MR. GEARY: Do you think an increase in loading would enable you to make the increase in commission that is necessary? A.—No, a decreased reserve in all would enable us to get down to a basis.

Q.—The whole difficulty in your mind arises from the fact that the agent will sell the participating policy? A.—Yes, the agent will sell what he will make the most money out of.

Q.—Does he find it more difficult to sell the non-participating policy? A.—The agent can use our estimates, which are catching, that is they are enticing to a man to see an estimate of what his profits are going to be at the end of 20 years.

Q.—They are not enticing more than a catchy statement of fact, are they? I mean to say they are not made out without regard to that? A.—No, but the very fact of showing a profit at the end of twenty years and the difference of premium won't produce that profit, they will take what they think will bring them in the most.

Q.—That is not the case exactly, is it, they do not see the two classes of policies and compare the rates and deduct them and compare the profit loading? A.—Oh, yes, they do.

Q.—Do your profits realize that difference, compounded? A.—We have not had our experience yet.

Q.—You have known of the experience of other companies? A.—I am very doubtful whether they will. I don't think they will.

Q.—You are prety sure they won't? A.—And our estimates are lower than many of the others.

Q.—But you don't think this extra profit loading will be improved at compound interest to produce a fair return? A.—No, at the present computation and the present expense of getting business, the estimates on the policies that are issued now, won't be realized unless there is some change.

Q.—Should these estimates be forbidden? A.—I think so.

50th day, London, June 29, 1906.

Q.—Entirely? A.—Yes, I would like to see them done away with entirely. I think they never should have been introduced. I think they deceive the public to a certain extent.

Q.—You would not agree with Mr. Purdom in regard to an increased scope of investment? A.—Certainly I would.

Q.—You are not concerned in the making of profits, you don't consider an insurance company an investment company? A.—But an insurance company has its monies and must invest them and get the best interest it can. That has nothing to do with the policy.

Q.—I understand you, when you say that, but following out your idea of not making profits, not devoting your main energies to making profits, you can safely enough invest your money in the securities open to you now? A.—But you have to invest your money in order to make interest. The amount of profits is small compared to the amount of the investments.

Q.—And it is to meet the competition with other companies that you desire a larger scope of investment? A.—To get as much interest for your money as possible, and as long as we have participating policies we must try to get as near to our estimates as we can.

Q.—You must become an investment company, losing sight of the principle that insurance is the primary object of the organization? A.—The making of profits has got to be considered as a primary object, to get business, if our results are not up to what we have promised they will make.

Q.—That is competition again? A.—Yes.

MR. TILLEY: Will you endeavor to have those exhibits for us so that they can be handed to the Secretary this afternoon? A.—I think so, yes.

MR. TILLEY: That is all I have to offer for the present with regard to the Northern, your honors. I now propose to take up the Woodmen of the World.

THE WOODMEN OF THE WORLD.

MR. TILLEY: I may say frankly, your honours, before taking this up that I do not know how far I can get in any way with satisfaction to your honours, in connection with the investment or the financial branch of the Woodmen Company or Association. I will bring out the facts and then, if it is found impossible to get on at the present time, that some ruling will be made or something done, so that we will be able to get an investigation later.

WILLIAM C. FITZGERALD sworn. Examined by MR. TILLEY:

Q.—What position do you occupy in connection with the Woodmen of the World, Mr. Fitzgerald? A.—Head clerk, general secretary.

Q.—General secretary is what one would understand by your position? A.—Yes.

Q.—But you are described as what? A.—Head clerk.

Q.—The head office of the Association being in London? A.—Yes.

Q.—I think you were one of the persons that procured the incorporation or the Act from the Dominion Government? A.—Yes.

Q.—How long ago was it that the Act was passed? A.—In 1893, a special Act.

Q.—Authorizing you to carry on the insurance branch and then there was a subsequent amending Act was there not? A.—Yes, passed in 1904, or 1903.

Q.—The object of that Act, was what? A.—The object of that Act was to enable the institution to carry on a sick and funeral benefit business.

Q.—So that you have now in connection with the Order, the ordinary insurance department, common to fraternal organizations, and then you have sickness insurance? A.—Sickness and funeral benefits.

Q.—Under the Act you are required to keep these two branches of your business entirely separate? A.—Yes.

Q.—And the funds realized from the sickness branch must not be used in connection with the insurance branch or vice versa? A.—That is it.

Q.—You are also required to keep the monies raised for insurance purposes entirely apart from monies raised for expenses? A.—Yes.

Q.—And no part of the money paid in by members for insurance can be used to defray expenses? A.—No.

Q.—The result is that the premiums or assessments that you levy in connection with the insurance branch are really net premiums? A.—Net premiums.

Q.—There is no loading on them for expenses? A.—No loading.

50th day, London, June 29, 1906.

The Woodmen of the World.
(W. C. Fitzgerald, Ex'd.)

Q.—And the organization is required to levy by a separate and distinct process any money that it needs to pay out for expenses? A.—Yes.

Q.—To what extent are all monies raised by the different branches of the association paid in to you? A.—They all come to me in bulk.

Q.—With an account for each lodge or camp? A.—Camps we call them. Lodge is the general name here.

Q.—With a return from each lodge showing the way it is made up? A.—Yes, usually. Sometimes they put it all in a lump sum. Some of them divide it, so much for assessment and so on. We get it in all sorts of ways and we have to fix it up the best we can when we get it.

Q.—I suppose in the way the business is carried on the methods adopted by the different lodges are not entirely uniform? A.—No, not at all.

Q.—And their returns are not exact? A.—No, very few are exact.

Q.—These lodges do not employ trained persons in any sense of the word? A.—Not at all, most ordinary persons that do the business.

Q.—Then when they come to you do the monies come to you personally, or to the office in London? A.—They come to me personally.

Q.—You are a solicitor practicing here as well as being chief clerk? A.—Yes.

Q.—Is your office and the office for this association a common office? A.—A common office.

Q.—Are the books kept in your office? A.—Yes.

Q.—By clerks employed by you or by the association? A.—By the association.

Q.—How many clerks have you in connection with that department of the business? A.—Five.

Q.—How long have they been in the office, is there permanence connected with their appointment? A.—Yes.

Q.—Have they been connected with the work for some two or three years, do you mean? A.—Yes, they change. They resign and we get new ones and so on from time to time.

Q.—Are they ladies or gentlemen? A.—Ladies.

Q.—And they have entire charge of the financial part of the work of the Order and these Clerks work under your direction? A.—Yes.

Q.—To what extent do you attend to the actual routine of accounting for monies and taking care of the business, and to what extent do you turn it over to these clerks or employees? A.—Do you mean the length of time or what I do?

Q.—I want to know how you divide your work between you and your employees? A.—I receive all the monies. I open the mail and make the first entries.

Q.—Where do you make the entry? A.—In a book we call the Summary Cash Book.

Q.—Will you show me the Summary Cash Book? A.—I haven't that book here just now. In fact I haven't any of our ledgers or cash books. I can get them in a few minutes. I brought everything else I was asked to bring.

Q.—Didn't we ask you to bring those? A.—No, I had no formal notice to be here.

Q.—You have known you were coming, though? A.—Oh yes, certainly. We will produce them, of course.

Q.—So far as we have been able to get papers from you in London—you have not sent any returns to the Commission? A.—Except what I have delivered to Mr. Jackson.

Q.—Since we have been here? A.—Yes.

Q.—You made no reply by way of sending in returns to the circular we issued in March or April? A.—Except that I told the Secretary we would furnish it as soon as we could, with our limited staff.

Q.—When may we expect to get the full returns, if at all? A.—Whenever you say. We have attempted to answer the questions as far as we thought they were applicable to our institution.

Q.—That is since the Commission has been here? A.—Yes, the answers had been ready for some time, any way.

Q.—You say you enter the items in a cash book, yourself? A.—Yes.

Q.—After that what is done with them? A.—Then the report, as we call it, with the remittance is handed out to one of the clerks to divide them up, enter the several accounts. If a report came from a camp with sixty members, for instance, that is handed to a clerk to be divided into sixty different accounts. We keep each member's account separate and distinct so that we can always tell how each member of the order stands, as far as we know, at our end.

Q—What books do you keep? In connection with the work of the Order? A.—We keep this Summary Cash Book and then what we call the General Cash Book and a Membership

50th day, London, June 29, 1906.

The Woodmen of the World.
(W. C. Fitzgerald, Ex'd.)

Register and what we call the Individual Ledger.

Q.—What is the individual ledger? A.—The individual ledger is an account for each member of the Order.

Q.—Do you have an individual account for every member? A.—Every member.

Q.—How many members have you? A.—About 11,000 now.

Q.—So that you have 11,000 accounts? A.—11,000 accounts to go over monthly. The detail is considerable.

Q.—Enormous, I should think? A—Very.

Q.—Do you keep any ledger in which you balance up your books? A.—Yes, we keep a ledger and we keep a large extended cash book and our accounts are balanced in that, our cash.

Q.—My information is that there is no balancing in your ledger, that there is no proper way of checking it? A.—Well, the abstracts are all there.

Q.—Do you have an auditor examine them? A.—Yes.

Q.—How often does he examine them? A.—Every month.

Q.—What books does he examine? A.—The cash, the individual ledgers and the camp ledgers. Investments. Disbursements, bank accounts, everything.

Q.—Where does he examine the bank accounts? A.—He compares them with the cash book.

Q.—Compares the bank cash book with the cash book? A.—Yes.

Q.—Is it carried into any ledger? A.—The bank account, no. We expect that the cash book compares always with the bank.

Q.—And that is the extent to which you show the condition of the bank account in your books? A.—Yes.

Q.—You don't keep in your ledger any account where the different accounts all brought together must balance? A.—No, we don't pay any money out except by cheque. We don't handle any real cash.

Q.—Where do you keep any account of the cheques you issue? Just in the stubs? A.—Also in the cash book.

Q.—You put a memorandum in the account to which the money is charged? A.—Yes, we keep a very detailed statement of the cheque.

Q.—But there is no general book for assembling all these matters and seeing how the different accounts stand and making a balance? A.—No.

Q.—Has your auditor never called to your attention the necessity for having books kept in some way so that they could be balanced in that way? A.—No, not specially.

Q.—Has he to any extent? A.—No, not at all.

Q.—Do you think that it is a proper thing to do? A.—Yes.

Q.—How long have you thought it? A.—Well, ever since we have commenced to have investments of any kind. Prior to that it was really a cash book transaction.

Q.—Up to the time when you got a volume of money that allowed for investments, there did not seem to be much use for it? A.—No use at all.

Q.—What funds have you now under your control, how much in the aggregate? A.—About $175,000, including investments and all.

Q.—Your total assets for the Order amount to about $175,000? A.—Yes.

Q.—How do your books keep track of these assets that you have got, how can one check the books to ascertain interest in arrear, interest accrued, and payment of mortgages, and so on, how is that kept? A.—We have an account opened for each item, for each individual mortgage.

Q.—You would have to go through all the mortgages, would you? A.—Yes.

Q.—All that information regarding mortgages, for instance, is not collected any place? A.—It is not collected. They are individually entered.

Q.—That is to say your books have been a system merely of making an entry in each individual account when anything would happen regarding that account? A.—That is it.

Q.—But no method or plan whereby a balance sheet is struck from the whole? A.—That is it.

MR. LANGMUIR: A sort of memorandum accounts. Unless you collect them together they must be a series of memoranda. A.—Of course under the heading of Mortgages, we have collected them together there.

MR. TILLEY: I understand that you have had some discussion with the accountant of the Commission with regard to the books, when the accountant was endeavouring to make some examination? A.—Yes, we have been considering that.

Q.—Has it been decided to have a set of books opened? A.—Yes.

Q.—A set that will properly collect all these items and keep them in proper order? A.—Yes.

50th day, London, June 29, 1906.

Q.—When is that going to be undertaken? A.—At once.

Q.—And when will it be finished? A.—Oh, it will only take a week or ten days.

Q.—I am told it will take longer? A.—Perhaps it will. I hardly think so. There are not many accounts.

Q.—Until that is done I suppose it is impossible to make any examination of the investments and financial end of your business? A.—Except by going through each one.

Q.—That is you would produce to the Commission an account for a certain mortgage, but there is no way of telling when we have got all the mortgages, except the mortgages as shown? A.—Except by examination in the cash book. We have a column headed Investments and every amount that is advanced on mortgages is in that column.

Q.—That would all have to be traced through, would it? A.—Yes.

Q.—You say though that you are confident that in the course of a few weeks the books will be in such a state that all that can be done satisfactorily? A.—Yes.

MR. LANGMUIR: Have you a Board under which you work? A.—Yes, called the Executive Council.

Q.—How often do they meet? A.—Three times a year.

Q.—Do they keep a Minute Book? A.—Yes.

Q.—Is every investment authorized by them? A.—Yes. Pardon me, there is a Board called the Board of Head Managers or Finance Committee, a sub-committee of the Board, that meets every month.

Q.—But the regular Board meets how often? A.—Three times a year.

Q.—The whole record of proceedings is given in that Minute Book, I suppose? A.—Yes, and also the Finance Committee's Minute Book.

Q.—Authorizing the investments? A.—Yes.

Q.—And the disbursements, for instance the Sick List, is that authorized? A.—Yes, authorize all disbursements. They examine every account each month.

Q.—And authorize the payment? A.—Authorize the payment.

Q.—Then you draw the cheques? A.—Yes, we draw the cheques.

Q.—Does anyone else draw cheques besides yourself? A.—Yes, they are signed by two others associated with me.

The Woodmen of the World.
(W. C. Fitzgerald, Ex'd.)

Q.—What bank do you keep your accounts in? A.—The General Account is in the Canadian Bank of Commerce, then we have special deposits in three other banks.

MR. TILLEY: I thought it was necessary and proper that I should bring to the attention of the Commissioners the condition with regard to that phase of the question we have to look into and ascertain what the Commissioners thought the best way to proceed in the matter. Could you, when all these books are prepared, as you say they will be, could they be brought without much inconvenience to you, to Toronto? A.—No, no trouble at all.

Q.—You would be willing to bring them to Toronto? A.—Oh, yes.

Q.—The Commission are endeavouring, as far as possible, to meet the companies at their head offices, but you say it would be as convenient to you? A.—Oh, yes.

Q.—It is practically impossible to examine into any one phase of the company without taking up the other, and I think it would be unfair to the Commission to attempt to pass on matters, as the books now disclose them, and it would be unfair to the company to suggest that there is anything improper, because it may be merely a loose system of carrying on the books. The accountant for the Commission thinks it would be rather a waste of time to attempt to investigate until these books have been put in shape, so that they can be checked. Have you a regular auditor appointed? A.—Yes.

Q.—Who is he? A.—Mr. Telfer.

Q.—How often is he supposed to check the books? A.—Once a month.

Q.—How can he from the method you have adopted? A.—I don't know how he can, but he does, apparently.

Q.—And gives you a certificate? A,—Yes, each month.

Q.—I would suggest, subject to your honours' approval, that we should be notified when the books are in such shape that our accountant can examine them and then the whole can be taken up in one sitting rather than taking it up in part now.

JUDGE MACTAVISH: Have you had a conference with the accountant, Mr. Edwards? A.—Yes, he suggested to me what he would like done

Q.—Do you, as representing your organization, agree with what he suggests as the proper course to follow,

quite independently of the Commission? A.—Yes.

Q.—You concede that the course he suggests is the proper one? A.—Yes.

MR. TILLEY: I think that is important, your honour, I had not thought of bringing that out. That was stated by Mr. Fitzgerald to Mr. Edwards. A.—Yes, I was very pleased.

Q.—It is not expense that we are putting upon them in any way.

JUDGE MacTAVISH: That is what I wanted to be sure of, that the suggestion Mr. Edwards made to you met with your approval, outside of the Commission altogether. That is, that you think it is a proper course to adopt for the future? A.—Yes, I was very pleased to have it.

Q.—Is your statement in answer to the questions sent you by the Counsel for the Commission some time ago, ready in so far as you can get it? A.—Yes, I think it is about as complete as we can give them.

Q.—Will you send it to the Secretary within a very short time? A.—Yes, if necessary.

Q.—If anything is wanting there you will be asked, perhaps, to supplement it. I think it will be more expeditious, Mr. Tilley, by adopting the course you have suggested.

MR. TILLEY: I could examine into the insurance features, but they interlock, it might be unfair to the company.

MR. KENT: The books should be changed from single to double entry. It is easier to keep a set of double than single entry.

MR. GEARY: I entirely concur in Mr. Tilley's suggestion, your honour.

MR. KENT: And a bank account should be opened in the ledger. A.—I intended to go down a few days beforehand, and Mr. Edwards said he would go over them with me.

MR. LEBEUF: Some time should be fixed for the examination in Toronto. We should not be asked to go there only for this company.

JUDGE MacTAVISH: Yes, it will be some time while we are sitting there.

WITNESS: I intended to be away a month myself, if that makes any difference.

MR. TILLEY: Yes, it makes a great deal of difference; if there is to be any substantial delay we must get on as best we can. If Mr. Fitzgerald could attend to this first. A.—I will, if you say so.

JUDGE MacTAVISH: I think so. The 9th would be too short a time, but the 16th, how would that suit you? A.—That will suit me. That will be two weeks.

JUDGE MacTAVISH: Then we will adjourn, to meet in Toronto on the 9th of July at 10.20 a.m.

(At 1.15 on Friday, the 29th day of June, adjourned to Monday, the 9th day of July, 1906, 10.30 a.m., in Toronto.)

FIFTY-FIRST DAY.

MORNING SESSION.

Toronto, Monday, July 9th, 1906.

MR. GEARY: I have spoken to Mr. Tilley about a matter that will probably come before the Dominion Counsel later, in regard to the application of this association who have asked me to speak to you this morning, that is the association called The Policyholders' Association of Canada. They have been incorporated, and already according to a memo. which they have placed before me here, they have a membership representing about two and a half millions of insurance throughout the Dominion, and they are holding meetings to perfect their organization. They desire at some time—my learned friend says he would prefer to have the application made through Dominion Counsel—to be heard, or to be permitted to present views especially in regard to future legislation, or whatever the result of the Commission may be. They have instructed me also to communicate with the Commission—and of course to my learned friend I communicate this more directly — that they are willing to do anything they are able to in order to afford him all the assistance that it is in their power to give. They desire the Commission to make a note of their request to be allowed to present their views in whatever form or at whatever time the Commission thinks it proper to do so. There is no more I can say. I have just been asked to present this to your Honors. I am not putting anything in. My learned friend thinks I had better not put anything in.

MR. TILLEY: What I said to my learned friend was we were very glad to get the assistance of any person, or information from any person or

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

any body of persons incorporated or unincorporated that will facilitate the work of the Commission, and anything that is submitted will be properly brought before the Commission.

MR GEARY: This Association is holding meetings and forming local Associations, I understand, with a parent body.

JUDGE MacTAVISH: I am sure we will be glad to have any assistance we can obtain from the Association named.

MR. TILLEY: I propose this morning to commence an investigation of the affairs of the Ancient Order of Foresters, and the investigation will be helpful chiefly from the standpoint of an Association that has been carrying on business as an assessment company for some time, a fraternal organization that has put its insurance business on a full reserve basis; and that sort of inquiry is one that I am sure will be helpful to the Commissioners later when considering the whole matter at the end of the Investigation.

WILLIAM WILLIAMS, sworn, examined by

MR. TILLEY: Q.—What is your position in the Ancient Order of Foresters? A.—Secretary of the Order in Canada.

Q.—You are what is called Permanent Secretary- A.—Yes.

Q.—What is the force of the word permanent as descriptive of Secretary? A.—I can hardly tell you that, I am up for election every meeting of the High Court.

Q.—And to that extent you are subject to be appointed or not for another year the same as other officers? A.—Yes.

Q.—I gathered that from the Constitution, but I wondered whether there was anything I could not see in the face of your papers that gave a meaning to the word permanent? A.—In former years, I think 1887 to I think it was somewhere about 1889 I was Permanent Secretary, I was elected Secretary of the Order in 1884 in London, and in 1887 I was elected Permanent Secretary to retain my office so long as I faithfully fulfilled my duties. At a subsequent session of the High Court, I cannot just call to mind the year, the law was changed, I think it was at the time we were registered under the Insurance Corporations of the Province of Ontario; the law was changed and I had to be elected the same as any other officer of the High Court.

Q.—How long has your Association been carrying on business in Ontario? A.—Since 1881.

Q.—Was that the time when the organization first came into existence, or was it an older organization carrying on fraternal business elsewhere? A.—It had been doing business under the High Court of England, subject to its Government, but in 1881 in the City Hall of Toronto we formed a subsidiary High Court to carry on the business of Canada under our own control.

Q.—Prior to that time had there been local branches of the High Court of England here in Canada—had you in Canada branches under the jurisdiction of the High Court in England prior to 1881? A.—Yes.

Q.—There were branches under the direct control of the High Court in England? A.—Yes.

Q.—In 1881 it was changed by establishing a subsidiary High Court in Canada having jurisdiction over Canadian branches? A.—Just so.

Q.—Had it jurisdiction from the first over all the branches in Canada? A.—Yes, all of them.

Q.—And any branches opened after 1881 would be also opened through the organization of the Subsidiary High Court? A.—Except in British Columbia who are now under the jurisdiction of the High Court of England, called the District of Columbia.

Q.—Were they ever under your jurisdiction? A.—Not at all.

Q.—So that they have remained as branches under the direct control of the High Court in England? A.—Yes.

Q.—Prior to 1881 were you connected with any local branch of the organization here? A.—Yes, I was connected with the branch in St. Mary's, Ontario.

Q.—And were you an officer of that branch? A.—Yes, I have filled all the offices in that branch.

Q.—And then your returns would be made direct to England? A.—No, we were formed in separate districts, different districts, and the districts used to make their returns, we used to make the returns to the district, and from the district to England.

Q.—In 1881 will you just describe shortly the change that was effected in your method of carrying on business? A.—There was no change effected in the carrying on of the business, only we became our own governors as it were.

51st day, July 9th, 1906.

Q.—Were you in 1881 created your own governors in all respects, or was there still a residuum of power left in the English High Court? A.—No power whatever, all we have is what we may call a social or fraternal existence between the High Court and ourselves.

Q.—There is no financial connection between you? A.—None whatever.

Q.—You contribute no fees or dues, or assessments in any shape or form to the British High Court now? A.—No.

Q.—As to the laws governing you, I rather gathered from reading them you were still somewhat under the control of the British High Court, but you say that is not so? A.—The only law there affecting the High Court is that in the event of any laws not covering the matter in question recourse shall be had to the general laws to settle that question.

Q.—That is if there is anything that arises in the carrying on of your business that seems to be unprovided for by your own constitution, then you are to be governed by the rule or practice of the High Court in England? A.—Yes.

Q.—Then after 1881, having your own organization, will you tell me in general terms the character of the work carried on by your organization? A.—The fraternal——

Q.—Yes; I am not now speaking of the insurance branch at all, but I want to get some idea of the nature of the work carried on by the Ancient Order of Foresters after 1881? A.—Insurance was instituted in 1881.

Q.—Was that the first time you had insurance? A.—Yes.

Q.—Did you call it the Insurance Department? A.—No, it was called the Endowment Fund.

Q.—What other departments had you? A.—Sick and Funeral Branches.

Q.—That had been in existence before, had it not? A.—Yes, that was always in existence, the Sick and Funeral Branches.

Q.—Is it right to say that that was the chief feature of the body in England even— A.—The Sick and Funeral Benefit, yes, and it is to-day.

Q.—And is it with you to-day the chief feature of it? A.—Yes, separate and distinct from the other.

Q.—And from the standpoint of the Association a more important branch, is it? A.—Yes, I presume it is.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

Q.—Does it control larger funds? A.—Than the Insurance Department?

Q.—Yes? A.—No sir.

Q.—But it is more far-reaching amongst your members? A.—Excuse me, I may have misled you when I said not control larger funds, not as the High Court, but the different Courts altogether in the country would control much larger funds.

Q.—Besides the Endowment Fund Branch and the Sick and Funeral Branch what other branches have you? A.—There was a Management Branch and the Special Levy Fund, a Guarantee Fund, and Ancient Forester, that is the periodical we issued.

Q.—The Ancient Forester is the paper? A.—Yes, belonging to the Order.

Q.—What was the Guarantee Fund? A.—The Guarantee Fund is composed of amounts collected from different Courts for the purpose of insuring the Courts against the defalcation of the Secretaries or Treasurers.

Q.—It is your own insurance fund against loss by default of the Secretary or Treasurer? A.—Yes.

Q.—It is a contingent fund, is it, to answer anything that may be lost by some person leaving and taking moneys of the Order? A.—Yes.

Q.—Is it a fund that you lay by to provide for any contingency of that nature that happens? A.—Yes.

Q.—That Guarantee Fund was in existence then from 1881? A.—No, not in existence in 1881; I forget just about the year, but I think it was somewhere in about 1891 that it came into existence.

Q.—That is not connected in any way with your Insurance Branch? A.—None whatever.

Q.—Does any money pass from your Insurance Branch to that fund? A.—No, not at all. I was going to say that at the Owen Sound meeting, I think it was in 1899, or before that, there was not sufficient money in the Management Fund of the Order to meet the expenses of the High Court, and we borrowed from the Beneficiary Fund this was, not from the Guarantee Fund——

Q.—I will come to that later, but what I am asking you is this, does the Guarantee Fund in any way provide for loss by defaulting officers in connection with the insurance? A.—None whatever.

Q.—The insurance as to that must stand now on its own bottom? A.—Yes.

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

Q.—It gets no help from these other contingent funds? A.—Not any whatever.

Q.—What was the Special Levy Fund? A.—That is a cent per member per annum to establish a fund to assist Courts that are in distress or short of funds.

Q.—A sort of poor-relief fund? A.—A relief fund for disabled Courts, we call them.

Q.—It is also a contingent fund? A.—Yes.

Q.—Given a special name? A.—Yes.

Q.—And that, I suppose, has no connection with your insurance Branch at all? A.—None whatever.

Q.—And never has had any? A.—No.

Q.—And has there ever been any mixing of accounts there between the Insurance Department and that fund? A.—No.

Q.—Any borrowing from one fund to the other? A.—From the Beneficiary to the other?

Q.—No, I am talking of the Special Levy? A.—No.

Q.—Never been any loans or payments made from one of those funds to the other? A.—No, only moneys loaned to Courts or given to them.

Q.—The Management Fund, what is that? A.—That is for the purpose of paying the expenses of management and purchasing goods and so forth.

Q.—Tell me how the funds for the Management Fund are accumulated? A.—The Sick and Funeral Fund is made up of a charge of $1 for each member initiated, what we call an entrance fee, and at the present time it is $1.35 per annum besides the $1 per annum for the Sick and Funeral Benefit; the $1 is only paid once, upon the initiation.

Q.—How does that money get from the Sick and Funeral to the Management Fund, is any part of it transferred? A.—No, it is all kept separate and distinct.

Q.—How is the money raised for the Management Fund? A.—That is made up of 75 cents per annum from the members, a levy like.

Q.—So that there is $1.35 per annum paid for the Sick and Funeral Fund? A.—Yes.

Q.—And 75 cents for the Management? A.—Yes, and one cent special levy.

Q.—And the Guarantee Fund, how is that? A.—Three-quarters of one per cent. per member, if there is 200 members we charge $3, $6 for the Secretary and Treasurer, according to the membership.

Q.—It is the local camp or lodge that pays that? A.—The general law calls that every Court shall be guaranteed in the sum of $2 for every member that is good on the books; so that if there were 130 members the guarantee would be $260.

Q.—That is not a levy that is made by so much per capita, it is made on the Lodge? A.—On the Lodge.

Q.—And then the members all contribute to their local lodge, it is taken out of the local lodge fees and dues? A.—The lodge funds.

Q.—Do you call them lodges? A.—No, Courts.

Q.—Have you told us, now, leaving out the Insurance Branch, all the funds that are paid into the High Court? A.—Yes, there is the Sick and Funeral Fund, the Management Fund, the Special Levy Fund, and the Guarantee Fund, and the Ancient Forester Account.

Q.—The Ancient Forester account would be paid by subscription? A.—Each Court pays 20 cents per member for the paper per annum, the Court pays that, not the individual members.

Q.—Besides these items that are paid to the High Court each Local Court must raise its own expenses? A.—Yes.

Q.—Whatever fund it needs for itself? A.—Yes.

Q.—That is the item that determines what its members must pay to it? A.—Yes, according to the general law.

Q.—Has there been any mixing of accounts betwen the Management Fund and the Insurance Fund? A.—Yes, there was $3,500 borrowed at Owen Sound from the Insurance Department to the Management Fund, a loan to the Management Fund at 5 per cent. interest.

Q.—When was that? A.—That was at the Owen Sound meeting, 1897, or before that.

Q.—Has there been any loaning of money by one fund to the other since the Act of the Dominion Parliament was obtained? A.—Not other than this $3,500, that is the only loan.

Q.—Was that paid back? A.—Yes, with 5 per cent interest.

Q.—Do you think that that was a proper application of the insurance money, to lend it in that way? A.—Probably it may not have been at the time, but it was a necessity.

51st day, July 9th, 1906.

Q.—Why was it a necessity? A.—Because we had not any money elsewhere to pay it.

Q.—For the management? A.—Yes, to pay the expenses of the High Court meeting.

Q.—The idea is that through the Management Fund these expenses shall be provided? A.—Yes.

Q.—Why had they not been provided through that fund? A.—The expenses must have been greater than the income to the fund.

Q.—It was, as a fact, at that time, was it not? A.—Yes, it was the High Court meeting that caused the necessity; the costs of the High Court meeting were about $4,000.

Q.—The necessity having arisen the Insurance Fund was the only fund you could go to for the money? A.—The only fund available.

Q.—In whom at that time was the Insurance Fund vested? A.—Vested in the Executive Council, in the Ancient Order of Foresters.

Q.—Who had the control of the Management Fund, the same Council? A.—The Executive Council.

Q.—So that the same persons were the custodians of both funds? A.—Yes.

Q.—It was like taking it out of one pocket and putting it in the other for the time being? A.—Yes.

Q.—Does that same arrangement exist to-day? A.—No, sir.

Q.—Why not? A.—The borrowing money from——

Q.—No, but is the same Committee the custodians of both funds? A.—Just the same Committee.

Q.—So that when that Committee has need for money for one purpose it is still possible for that Committee to use the funds of another branch of the organization? A.—Not under that Act at the present time.

Q.—Do I understand from you, then, that you think the Dominion Act has affected your right to make that sort of transaction? A.—I think so.

Q.—I think if there was any doubt about it before it was removed by that Act? A.—Yes.

Q.—Was that sum of money paid back with interest, that $3,500? A.—Yes, with interest at 5 per cent.

Q.—When was it paid back? A.—In different years, three or four years.

Q.—When was the last payment made? A.—In 1898 or 1899.

Q.—Was it paid back, entirely returned before the Dominion Act was passed? A.—Oh no, we had paid some back.

Q.—Have you the book here that would tell you the date when that was returned, have you your ledger here? A.—I have the ledger of the Insurance Department. On January 1st, 1900, there was a balance owing of $1,848. There was paid off on February 28th, $48, $46.20 and $45, that would be $91.20 interest, and $48 of the principal. In December, 1900, there was paid back $800, and interest $45. June 21st, 1901, there was $25. In 1901, December 31st, there was $1,000 paid and $25 interest.

Q.—That closed up the fund? A.—Yes, that closed up the loan.

Q.—Do you remember why that was done on the 31st December? A.—So as to close up the account by that date, that is all.

Q.—Even under the laws that existed before the Dominion Act, it was provided that the Insurance Beneficiary Fund should not be used for expenses? A.—Yes, that was so in our laws.

Q.—So that that was a direct breach of your laws? A.—They say it was a breach, it was really a breach of necessity.

Q.—But that necessity might equally arise now even though you are under the Dominion Act? A.—Yes, but you could not get the money.

Q.—They should not have been able to get the money before? A.—Just so. In those early days things were different.

Q.—Why do you say they could not get the money now; they have the same money, it is the same Council, the same body holds the funds? A.—Yes, but they cannot draw the money without the sanction of the High Chief Ranger and the Permanent Secretary and the——

Q.—The High Chief Ranger is as much interested in the Management Fund as he is in the Insurance, and so is the Permanent Secretary? A.—No, I am a little more interested in the insurance.

Q.—But then your duty is not more to one fund than to another? A.—No, just so.

Q.—Is not that very feature still an objection to your organization, that the insurance moneys are not put in the control of some person who has nothing to do but watch the Insurance Fund and protect it? A.—I think it would be much better if the

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

Insurance Branch were under its own control altogether.

Q.—I think you recommended that, or something similar to that in 1901? A.—Yes.

Q.—Your recommendation has never been carried out? A.—No.

Q.—And the fund still all remains with the one Committee that is common to all? A.—Yes, with one Committee common to all.

Q.— From 1881 down to 1898 you had the Endowment Branch? A.—Yes sir.

Q.—You had changed your rates once during that time? A.—Yes, I might explain that from 1884 to 1893 I had no control of the Endowment Fund, as it was called. That was then conducted by the Board of Directors who were located in London; but at a meeting in Woodstock it was decided to bring the whole fund under control of the High Court, as it seemed to some of the members that it was slipping away from them, there was not the control they should have.

Q.—They thought the organization as a whole had not the control it should have over that branch? A.—Over that branch.

Q.—When you opened this Endowment Fund you were not personally much interested in the actual management of it, in 1881? A.—No, none whatever.

Q.—It was not till it was brought here to Toronto that you became personally interested? A.—It was in 1892.

Q.—Up to 1892 there had been no change in the rates? A.—No.

Q.—I think the first change was in 1895? A.—I think it was.

Q.—And that change in the rate was continued until you came under the Dominion Act? A.—Yes.

Q.—Tell me how satisfactorily matters were proceeding between the establishment of that Endowment Fund and the time you obtained the Dominion Act? A.—The progress of it, do you mean?

Q.—Yes? A.—Well, the progress was not as satisfactory as we thought it would be. We were getting too few members, the whole tenor seemed to be that eventually we should have to close up, and of course the Ancient Order of Foresters had never done anything of the kind before and we did not propose to do it if it were possible.

Q.—And you would probably like to say right at the end of that statement that you feel now you have it in a shape you will never have to close up? A.—Yes sir.

Q.—We will put that altogether there; tell me then what was the objection to the method of carrying on the business that brought about that result, that feeling that you would probably have to close up? A.—The loss of interest in the fund by the members, the insufficiency of obtaining members, and excessive death rates. There was a general feeling of course, but not harshly shown.

Q.—There was a general feeling there would be trouble ahead? A.—Yes.

Q.—There had been trouble before that with some other Assessment Societies? A.—Yes, there had been trouble in the Assessment Societies.

Q.—How in respect of any of these matters you have mentioned could the Dominion Act improve it, could it make them take any more interest in it? A.—It has done since we have been incorporated.

Q.—Is it not because of the extra strength that you have by reason of the reserve that you now keep up? A.—I think it is on account of our increasing the rates, putting up the Government reserve as required, and carrying on the business in a straightforward and legitimate way.

Q.—That is, it is by reason of the strength of the Insurance Branch now as compared with the strength that you had had before putting up the reserve? A.—Yes.

Q.—Did you hold the view that the business could be carried on under the Assessment principle and be permanently successful? A.—I never had that opinion.

Q.—Why did you think it could not be successful? A.—I had made the calculation of the payment by members at the low rate they had done and were doing, and I could not find, no matter how you invested the money, that you could make up the payment even if the man lived the allotted term, to meet his thousand dollars.

Q.—That is without any excessive mortality? A.—Yes.

Q.—If he lived the full term that was allotted for him according to the tables, with the rate you were charging you could not raise the fund to pay them all? A.—No, I think it would be paying in about $600 and to pay $1,000 I would not see where the difference came in, that is to say on the receipts that the organization

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

would have there is about $600 according to the way you computed it, and they would have to pay $1,000 to be insured? A.—Yes.

Q.—How long did you continue of that mind, how long did you think that before 1898? A.—Ever since I became Secretary in 1884.

Q.—Was the same view held by others who were active in the organization of the— A.—You mean of the officers?

Q.—Yes? A.—No, I cannot say they were at that time.

Q.—Do I understand that your view was different from the other persons who were officers? A.—Yes, it was some times, for some few years.

Q.—During what period of time could you say that was so, because I see there are some references to complaints of some things that had been done, and I should just like to find out and trace the process of education that has gone on in your Institution? A.—The feeling of the officers changed somewhere about 1895, or 1896, up till the time we got our incorporation.

Q.—From about 1895 you think the officers rather held the same view you did? A.—Yes.

Q.—That if you continued on the basis you were then charging for premiums and paying out the insurance you were obliged to pay that it would eventually end in trouble? A.—I think it would, yes.

Q.—I suppose that the rank and file of the Society or Association did not feel that way about it? A.—No, I cannot say they did.

Q.—Had you at that time the right to increase the premiums you were charging to as much as you thought proper? A.—No, sir.

Q.—Why had not you that right? A.—The right was vested in the High Court meeting.

Q.—You thought I was asking you whether you personally had the right? A.—No, the Executive officers, the Executive Council.

Q.—But I mean had the Association, the Ancient Order of Foresters, whether in High Court meeting or Executive Council, the right to increase its rates as much as it pleased? A.—Yes.

Q.—It was just subject to the ordinary rule of Assessment Associations? A.—Yes.

Q.—The rates they were charging could be increased even against the old members? A.—Yes.

Q.—But they could not be increased you say by the Executive Council? A.—No, sir.

Q.—The rules require that to be dealt with by the High Court at a regular annual meeting, or a regular meeting? A.—Yes.

Q.—The meetings are held not annually but every second year? A.—Annually till 1887, and then it has been biennially since

Q.—That change of rates would have to come up at the regular meeting of the society? A.—Yes, sir.

Q.—Had you difficulty in getting rates raised in 1895? A.—No, not in 1895.

Q.—Did the increase in rates in 1895 apply to the old members? A.—No, sir.

Q.—I suppose there would be no trouble about that then? A.—No.

Q.—So long as it only came out of the pockets of the newcomers there would be no objection; what would have been the result if you had attempted to raise rates on the old members at that time? A.—I suppose they would have kicked as they have done in this case.

Q.—They would have complained as they did later when you came under the Dominion Act? A.—Yes.

Q.—Put it this way, did you know that it would be practically useless to attempt to raise rates on old members through the medium of the High Court? A.—I was perfectly sure of that.

Q.—At that meeting every delegate would have a vote? A.—Yes.

Q.—And no matter what the officers thought, who were in the management of the fund, or who had given it a great deal of consideration, thought of the change these men would vote against paying the extra premiums themselves? A.—Yes, sir.

Q.—Was that feature discussed between the officers? A.—It has been discussed among the officers several times at their meetings.

Q.—And is it right to say that knowing fully that that was the case they never made any attempt to raise the rates on the old members through the High Court? A.—It would have been an impossibility to do it through—

Q.—You subsequently got it referred to your Committee and then took the brunt of it at the next meeting after you got them raised? A.—Yes.

Q.—I think the resolution was al-

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

most unanimous condemning you? A.—No, I do not think so.

Q.—At the following meeting? A.—Condemning our action?

Q.—Yes, after you had accomplished it? A.—It was carried unanimously, our action in transferring was carried unanimously.

Q.—But they complained of the system? A.—Yes, they complained most bitterly, but we carried the point all the same.

Q.—Because you got it carried before you met? A.—Yes.

Q.—At any rate that was the idea, and I suppose that is the case in any fraternal organization carrying on the assessment insurance, that it would be impossible to get the members to vote for a resolution increasing their own premiums? A.—I think I might say conscientiously it would be defeated every time.

Q.—No matter how insecure their position might be ultimately, and how uncertain it might be whether they would ever get their insurance money? A.—I think so.

Q.—Then if the members will not pay a premium sufficient to carry on the insurance properly how is the fund created to pay the members, what is it that is necessary in order to keep you running at any rate for a certain time? A.—New blood.

Q.—What do you mean by new blood in the organization? A.—Young members joining.

Q.—Getting young members who will have a lot of premiums to pay? A.—Who will pay a lot of premiums.

Q.—And won't turn their certificates into death claims too soon? A.—No.

Q.—The Society can work along, as I understand you, so long as it keeps on getting in the young men and persons joining the institution fast enough to answer the death claims of the older men who are dropping off? A.—Yes, for a limited time, but the end must come.

Q.—Why do you say the end must come? A.—If the Hm. table is correct they say that a certain sum should be put aside for a reserve to meet a liability, whilst the assessment societies say they can do it for half. I should say that the end must come through their not having sufficient funds in the reserve to meet the liabilities as they accrue.

Q.—I thought the idea was that the reserve that the insurance companies keep for the insured is kept by the assessment companies in the pockets of the members instead of in the company's funds? A.—It may be in their pockets but it would be a job to get it out.

Q.—From the company's standpoint that is not a very good treasury for it? A.—No.

Q.—And it is not deducted from the policy when the policy comes to be paid, is it? A.—No.

Q.—I suppose that the average age of the persons in the Beneficiary class is very material to be considered, Mr. Williams? A.—Well, I don't like to take an average; I like an individual calculation.

Q.—Had the average in your society been going up rather than coming down by getting in young men? A.—No.

Q.—I mean before '98? A.—Oh, yes, they were getting up in years.

Q.—Can you tell me what your average age was then? A.—I should think about 44.

Q.—What is the average age now? A.—It is about 32 or 33.

Q.—Then had the average age prior to '98 been rising? A.—It must be rising because the old members were getting older all the time.

Q.—And you were not getting new members? A.—We are getting lots of new members but the old members that had joined at the transfer, their ages have increased considerably.

Q.—Prior to '98 was the average age of your Society increasing? A.—Yes.

Q.—You were not getting in young men fast enough to keep the average down? A.—No.

Q.—Do you know to what extent it had increased? A.—No, I cannot just say.

Q.—In bringing it up to 44 years? A.—Well, I should say that in the start in '81 it was about 33 to 44.

Q.—You had accumulated a surplus fund, had you up to '98? A.—Yes.

Q.—Amounting to how much money? A.—I think it was about $30,000 in December, '97.

Q.—Was it not more than that? A.—Very little more, I think.

Q.—Yes, you are right, $25,699.95? A.—Something like that, $25,478.80.

Q.—About $25,000 is near enough. So that you had funds on hand all the time? A.—Oh, yes, we have always had funds on hand.

Q.—You were never in a position that you could not pay claims as they matured? A.—No.

Q.—But it was the fear of getting in that position that made you look

about to see how the difficulty could be remedied? A.—Yes.

Q.—There was some difficulty down in Quebec, too, was there not, about that time, about your license there, and the requirements of the Quebec laws? A.—Yes.

Q.—Was that a happy feature that just cropped up at that time to give you an excuse or was it really a misfortune? A.—Oh, I don't know what we might term it. It was certainly a help to us.

Q.—It gave you a good excuse? A.—Gave us a helping hand.

Q.—You had an explanation for making the change at that time at any rate? A.—Yes.

Q.—But so far as you were concerned, you were convinced that the change had to be made? A.—There is no doubt about it.

Q.—What was the difficulty in Quebec that you had to meet. A.—There was a deposit of $5,000 with the Quebec Government. We had nothing like $5,000 of an interest in Quebec to deposit it. Some correspondence passed between our solicitor in Quebec and on account of the Independent Order of Foresters not paying the license fee we were relieved from it.

Q.—In order to comply with the Quebec Act at that time you would have had to put up a deposit of $5,000 in cash or securities? A.—Yes.

Q.—You had to have head office and appoint a chief agent for the Province? A.—Yes.

Q.—Pay a license fee of $50 each year? A.—Yes.

Q.—And then you had to have over a certain number of members in the Province? A.—Yes, we had the requisite number of members.

Q.—You had to have over 500 members, but you had them? A.—Yes, we had the requisite number of members.

Q.—Was there any restriction of the rates you were to charge? A.—There was some change in the rates. I think you will find it on the back of the Act.

Q.—There is a schedule here. I will put in a copy of the Quebec Act, which Dr. Secord has given me. (Filed as Exhibit 320.) This Act provides, in addition to the matters we have mentioned, that the rates charged on applications after 30th June, 1898, shall be at least equal to those set out in the schedule? A.—Yes.

Q.—Were those rates equal to or greater than yours? A.—Well, I don't remember comparing them.

Q.—Do you remember whether you had any difficulty on that score? A.—I don't remember, but I think they came up pretty near the Insurance Act of Ontario, the rates.

Q.—Your rate in '95 at age 25 was 91 cents and the rate under the Quebec Act was $1.05? A.—Yes, that is without any allowance for management either. That is net.

Q.—At age 35 your amount was $1.27 and the Quebec $1.43. At age 44 your amount was $1.78 and theirs $2.01. So that a compliance with this Act would involve raising your rates? A.—Yes.

Q.—The other sub-sections of that section contained other provisions which would not, I think, affect your company. For instance, you insured your members only? A.—That is all.

Q.—And did not insure for more than $3,000? A.—No, $2,000 is our limit.

Q.—And you were solvent up to that time, that is taking solvent to mean the ordinary meaning, able to pay your debts as they matured? A.—As they became due.

Q.—But probably not if you had regard to whether you had funds to answer your present obligations, although deferred? A.—If an epidemic had occurred we could not have.

Q.—What was the immediate result of the passing of this Act in Quebec on your Association? A.—It has not had any result.

Q.—What did you do in consequence of that Act being passed? A.—That was one of the things that led us up to getting an Act of Incorporation from the Dominion Government.

Q.—That is you thought that rather than comply with that Act that you would prefer getting a license from the Dominion Government which would obviate the necessity of complying with the requirements of any Provincial law? A.—Yes.

Q.—You would then be entitled to do business in any Province? A.—Any Province.

Q.—What Provinces were you organized in at that time? A.—Quebec, Ontario and Manitoba.

Q.—Were you serious in wanting to get away from this Quebec Act or was that seized upon by the officers as a good excuse? A.—I think we felt that if we had to make such a provision for the Quebec people we might as well make it for the whole of our people in Canada.

Q.—What was the first step that

51st day, July 9th, 1906.

Ancient Order of Foresters, (Wm. Williams, Ex'd.)

was taken in that direction? A.—Applying for an Act of Incorporation.

Q.—To the Dominion Government? A.—Yes.

Q.—Did you consider at that time the provisions that were in force enabling you to change from an assessment company to a full reserve company? A.—Yes, we knew what was necessary.

Q.—And you knew the provisions that were in the general Insurance Act in that regard? A.—Yes.

Q.—Did you intend at that time to put up the full reserve? A.—The first application was not intended for the full reserve.

Q.—Have you a copy of the Bill? A.—The first reading of the Bill is this document.

Q.—This, then, is the first draft of the Bill? A.—The first reading. (Filed as Ex. 321.)

Q.—What you provided in that Bill that you wanted to have passed at that time was that cerain persons should be incorporated under the name of the subsidiary High Court of the Ancient Order of Forresters for the Dominion of Canada. Then the objects of the Society were set out practically the same as we have them in the Act that was ultimately passed? A.—Yes.

Q.—Then there are provisions as to head office, branches, investment of funds and what should happen when a branch was dissolved, very much as the Act was passed? A.—Very much so.

Q.—But the main section in this Act that was passed is eliminated from that, that is Section 10? A.—Yes, in reference to the reserve.

Q.—Without going into it in detail for the present, was that provision opposed by your Society? Section 10 of the Act that was passed? A.—I cannot say that it was actually opposed but we desired to become incorporated in the Dominion of Canada to do business as we had been doing.

Q.—What was your own view about that, did you oppose it yourself? A.—I did not.

Q.—It met with your view? A.—Yes, but we consulted with Mr. Fitzgerald and our solicitor.

Q.—What stand did Mr. Fitzgerald take regarding this section 10, which required you to put up the full reserve, was that a suggestion of his? A.—That was his suggestion.

Q.—That was something that he was anxious should be forced upon you, was it? A.—Well, he was anxious that we should put up the same reserve as any life insurance company to meet our liability.

Q.—Did he take a strong stand on that point, do you remember? A.—A stand as opposing any change to his views.

Q.—A strong stand on the question of your putting up the full reserve? A.—Most decidedly, he took a strong stand on that.

Q.—Then it was the result of his attitude that brought that section into the Act? A.—Yes.

Q.—You did not oppose it but it was not something that the members of your organization were looking for at that time? A.—No.

Q.—They wanted Dominion Incorporation with the right to keep in reserve or not, as they pleased? A.—Just so.

Q.—Then, other than that, was there any other matter that was at all brought into controversy at the time of your getting the Act through? A.—That was the principal feature. I don't know of anything else that occurred. That was the only section that we had a consultation on between our solicitor, myself, Dr. Secord and Mr. Fitzgerald, and he was emphatic in not agreeing to it passing as it was unless we would agree to have the change made.

Q.—Then I will put in the Bill (Ex. 321) and I will put in the record of the Minutes of the High Court of 1899 (Exhibit 322) and of 1901 (Exhibit 323.) I have copies of them here for your honors. These books for 1899 and 1901 contain practically all your records regarding this legislation? A.—They contain all the records of the High Court meetings.

Q.—And in those years was the full discussion of this Act of the Dominion Parliament? A.—Yes.

Q.—And everything regarding that in your Minutes or of any amendment was in those two years? A.—Everything that passed at those High Court Meetings is included in those books.

Q.—Then the Act that you obtained is in the 1901 Report? A.—1901, that is in my Report of the High Court Meeting.

Q.—And it is at page 17 of the Report for 1901. That Act incorporates the persons named—I suppose they were the officers and trustees? A.—At that time.

Q.—The name given to your Association was The Subsidiary High

51st day, July 9th, 1906.

Court of the Ancient Order of Foresters in the Dominion of Canada? A.—Yes, sir.

Q.—And the objects are stated in sub-sections "a, b, c, d, e, and f" of Section 1. The first one is to unite fraternally all persons entitled to membership; the second to give moral and material aid; the third to educate its members socially, morally and intellectually. Those are just the fraternal features of your organization? A.—The fraternal features of the Order, yes.

Q.—Sub-section d, to establish a fund for the relief of sick and distressed members? A.—That is the Sick and Funeral Fund.

Q.—Sub-section e, to establish and maintain benefit funds from which, on satisfactory evidence of the death of a member of the Society who has complied with all its lawful requirements, a sum not exceeding $3,000 shall be paid to the widow, orphans, dependents or other beneficiary whom the member has designated or to the personal representative of the member as laid down in said laws. Clause f, to secure for its members such other advantages as are from time to time designated by the laws of the Society. Now, clause e, is the important one under that Act, is it not? A.—Yes.

Q.—That provides that the limit of insurance shall be $3.000? A.—Yes.

Q.—You have not yet got up to your limit? A.—No, about $2,000.

Q.—Can you tell me why there is any limit of the amount of the insurance you can write, provided you keep the full reserve? A.—I don't think there should be any limit of the insurance we can write provided we have a sufficient amount at our back to meet our liabilities.

Q.—Do you keep the full reserve? A.—Yes, but a young society starting as we were, I think it would have been unjust to members generally to issue a $3,000 certificate, because we would not have got many of them.

Q.—That may be so but if you put up the reserve that ordinary insurance companies put up under the Act, why should you be limited any more than any other insurance company? A.—Well, I think it was a good thing to limit us to $3,000.

Q.—Possibly it arose in this way, that you in drafting your own Act, without the provision as to the reserve, you put in that clause asking for the right to issue policies up to $3,000, and then that was never changed after the other section was put in? A.—Yes.

Q.—This section provides that the insurance shall be for the benefit of the widow, orphans, dependents or other beneficiary that the member has designated and that the amount of the insurance shall be payable on his death? A.—Yes.

Q.—Does that prevent your issuing endowment insurance? A.—I presume it would prevent us issuing a straight endowment policy.

Q.—But it does not prevent you issuing an endowment policy that is not quite straight, is that what you mean? A.—No, I cannot say that. I don't think it prevents us issuing a policy for a certain amount and giving certain privileges.

Q.—What is the name of your policy that you are thinking about now that nearly transgresses that section. The Beneficiary Fund Policy? A.—Yes, I think that is the one you are alluding to.

Q.—Is not that practically an endowment policy? A.—Of course I know that the policy says that the insurance, $1,000 shall be payable at death. But on the back of the policy is endorsed a clause that at the end of the period of 15 years, according to the policy I am reading from, the insured will be given $1,000 cash and the profits in cash and a paid-up policy for $100? A.—Yes, or he can take the cash surrender for $1,050.

Q.—Or he can take full cash without any paid-up policy at all and without any profits, is it? A.—No, the profits would be in addition.

Q.—$1,050. That is an attempt, at any rate to issue what is in effect an endowment policy? A.—Well, I didn't consider it so.

Q.—Did you evolve this? A.—Yes, that was my own evolution.

Q.—It was not an expert actuary that— A.—No, sir, I am not an actuary.

Q.—What I mean is it was not some other expert actuary? A.—No, and I am not an actuary.

Q.—That is not a surrender value in the ordinary sense, is it? A.—I think so.

Q.—It is not estimated on the same basis as your ordinary surrender values in other policies? A.—As a straight life policy, no, decidedly not, because he pays more for his insurance.

Q.—But it is not estimated on the same basis, is it? That is practically paying him his insurance at the end

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

of that time if he wants to take it at that time? A.—Yes, that is what it means, I suppose.

Q.—Then, if you issue a policy on a man's life and stipulate that he shall get his insurance at the end of 15 years if he wants it, that is practically an endowment policy? A.—That would be a straight endowment policy. It would be on the face of the policy.

Q.—And the only distinction is that this is on the back of the policy? A.—No, I don't look at it as an endowment policy in any shape or form.

Q.—There is the policy any way and I will put it in as an exhibit. (Filed as Exhibit 324.) Is there any reason why, if you put up the reserve, you should not have the right to issue endowment policies? A.—I think we should have the right. I don't think there should be any restriction to issue endowment policies.

Q.—I suppose that would come in the same way as the other clause in the section, it was something you had put in originally and then never changed afterwards? A.—I did not put that in. It was our solicitor who drew the bill.

Q.—I see you have that clause in the bill as the Association drew it? A.—Yes.

Q.—If you had then anticipated that you were going to put up the reserve you would have asked for endowment privileges as well? A.—I think the probability would have been this; if you notice in our Act of Incorporation we were relieved from putting up a deposit with the Dominion Government of $50,000. Now had we had that $50,000 to have deposited with the Dominion Government we should have endeavoured to have gone further than we did. If it had been to-day, when we could put up the $50,000, we would be willing to do it.

Q.—You were relieved of depositing $50,000 in cash because it was a financial impossibility for you to deposit it at that time? A.—Yes, we hadn't got it.

Q.—And by reason of that your privilege to get out and carry on the insurance business commercially, as others were doing, was limited? A.—Yes, restricted.

Q.—If you had been able to put up the $50,000 deposit you probably would have come under the ordinary Insurance Act as to your right to issue policies? A.—Yes, under the ordinary Insurance Act.

Q.—You in no way restrict the right of the insured to designate the beneficiary? A.—No.

Q.—It need not be for his wife or any person dependent on him, if he chose to name some person else? A.—He can designate who he likes. For instance, by will.

Q.—Have you held real estate under this Act, section 4? A.—No, we have no real estate. Not under the Insurance Department.

Q.—Not in the Insurance branch? A.—No.

Q.—You have real estate in some other branch? A.—Some of the Courts hold real estate in their own right.

Q.—Does the Insurance branch in any way treat itself as being a tenant or owner of any property? A.—No, we are only a tenant of where we have our office.

Q.—Does it pay any rent? A.—No.

Q.—That is only one respect I suppose in which the insurance branch obtains a good deal of assistance in the way of expenses from other branches? A.—Yes.

Q.—Its rent is paid; I suppose a good deal of the clerical assistance is paid? A.—Yes, my salary is paid.

Q.—Your salary is paid entirely outside of the insurance funds? A.—Yes.

Q.—So it enables the Ancient Order of Foresters to keep down its insurance expenses in that way? A.—Yes.

Q.—We will take that up probably more fully when we come to the loading on your premiums. Then there is a provision as to the property of each branch being only liable for the debts and engagements of such branch. Has anything ever turned on that clause in actual experience? A.—No.

Q.—Never had any reason to rely on it or consider it? A.—No.

Q.—Have any of your Courts ever been closed up, insolvent? A.—Not insolvent. They have gone by removal of members, and so on, from one place to another.

Q.—But always paid their debts? A.—Yes.

Q.—Section 6 is your clause as to investment of funds. Does that clause govern you or do you think you come under section 50 of the Insurance Act? A.—We come under the Insurance Act for the insurance funds, there is no doubt about that.

Q.—You hope there is no doubt about it? A.—Well, I hope so, at any rate.

51st day, July 9th, 1906.

Q.—Because this section is very narrow, is it not? (Reads section 6.) A.—I don't think we have anything outside that.

Q.—You have stock in one loan company? A.—We have stock in a loan company, yes.

Q.—There is no provision here for stock in a loan company? A.—Well, that stock was purchased before I had anything to do with it, and before we were incorporated, somewhere about 1890, I think, under the Board of Directors.

Q.—It was an asset this Association had when it came under this Act? A.—Yes.

Q.—And the investment has been continued ever since? A.—Yes.

Q.—Stock in the Huron and Erie Loan and Savings Company? A.—Yes.

Q.—It has been a profitable investment? A.—Yes.

Q.—Are there any persons connected with your Association as officers who are officers of the Huron and Erie Loan Company? A.—No, sir.

Q.—Or any of the other companies whose debentures you have? A.—No.

Q.—Because you have debentures of the Huron and Erie as well as holding stock in the company? A.—Yes. No officer of ours is in any way connected with any company that we have any insurance or investments with.

Q.—How much stock have you with the Huron and Erie ? A.—Forty-three shares. $4,750 is the face value.

Q.—But the market value would be? A.—About $8,000.

Q.—Is the market value more or less than you have been carrying it in your reports? A.—The market value is more than we have been carrying it.

Q.—You have not been taking credit for the whole market value? A.—No.

Q.—You have been putting it in on a conservative valuation? A.—Yes.

Q.—Would you consider now that you had the right to invest in that Huron and Erie stock if the matter came up for consideration now? A.—Well, under the Insurance Act, if we take under the Insurance Act of the Dominion, I think we would have. But I think if we were buying stock we would consult a solicitor.

Q.—Why, you might not be more apt to be right in that way than by taking your own view? You do the actuarial work? A.—Yes, most of it.

Q.—Why not attend to the legal as well? Then, section 50 of the Insurance Act was passed the next year, was it not, 1899? A.—I think it was.

Q.—And then your Act contains this provision: "So long as the Society complies with the provisions of this Act and of the Insurance Act, so far as applicable, or hereafter made applicable, the Society shall not be required to make any deposit in order to entitle it to a license under the Insurance Act." You think, under that clause, that that gave you a right to take advantage of Section 50 of the Insurance Act as to investments? A.—That is my idea.

Q.—Because Section 50 does not profess to affect the private act of any company, but is in addition to its rights under its private Act. There may be a point there, but the section that governs your investments is not nearly so broad as Section 50 of the Insurance Act? A.—No.

Q.—It has been broad enough for your purposes except with respect to this stock in the Huron and Erie? A.—Yes.

Q.—Your investments have not changed much? A.—No, the only change was that made when $10,000 of debentures fell due of the Dominion Permanent Loan and Savings Company they were immediately re-invested in Calgary Debentures.

Q.—Having received the money on those debentures you re-invested it in other debentures? A.—Yes, then there was also $5,000 invested in Kenora debentures.

Q.—Then you have not sold any of your securities? A.—No.

Q.—Every security you have taken you have held until it matured or else you still hold it? A.—Yes.

Q.—There has been no buying of stocks? A.—No.

Q.—Not a single chance? A.—No, there has been no buying of stock.

Q.—Any loans to any of the officers? A.—No loans to officers. Loans to members.

Q.—On policies? A.—Yes.

Q.—In any other way than on policies? A.—No.

Q.—Your policies, I suppose, provide they shall have the right to loans on them? A.—Yes.

Q.—And then you have a form of loan agreement with them? A.—Yes.

Q.—What rate of interest do you charge those members on their loans? A.—6 per cent. They are only small loans, $60, $12 and so on. We find that members take advantage of that.

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

We find it advantageous to advance loans on the policies to members especially in the winter time; they are hard up and they come and borrow $12 $15 or $25 and in the spring they pay it back with the interest. It has been a benefit to the members in that way.

Q.—Then there is a provision in the Act under Section 7, for dissolving branches? A.—That is if Courts get out of existence.

Q.—By means of members leaving and the Court falling into decay? A.—Yes, take Regina; we had several members there and some have gone to Calgary and others elsewhere, so that the Court is really out of existence, but there are no debts.

Q.—The Insurance funds have never in any way been saddled with any expense in connection with those Lodges? A.—No.

Q.—You do not insure any man unless he joins your Association? A.—Unless he becomes a member.

Q.—Can he become a member for the purpose of the insurance only? A.—Yes sir.

Q.—That is for the financial benefits? A.—Yes.

Q.—Supposing a man belongs to a lodge or a court in Regina, you gave us as an instance, and the Court breaks up and is disbanded, is his insurance continued? A.—Yes, he sends his premium to the head office and we send his receipt to him. It does not affect the insurance.

Q.—Does that man contribute anything to cover the general expenses which should be properly paid by the insurance but which is not paid by reason of being part of a large organization? A.—No sir, he only pays his insurance premium.

Q.—Then, supposing he joins for the purpose of being insured merely, to what extent does he pay towards general expenses, over and above his premiums? A.—He pays $1 a year towards the management of the court.

Q.—Do you think that is a fair share to pay? A.—Oh well, I don't know. I don't know that he should be charged anything, an honorary member.

Q.—You would treat him as an honorary member? A.—Yes.

Q.—Joining for the purpose of getting the insurance? A.—Yes.

Q.—And $1 is added to his premium every year? A.—No, not added to his premium. He pays that to the court.

Q.—$1 is added to what he has to pay? A.—Yes, he can pay it or not. That is a local matter.

Q.—Is it not obvious that if your salary and rents and all these matters of expenses are not charged to the insurance funds, that every person that is in that insurance fund, and getting a benefit from it, should contribute towards these general expenses? A.—Most decidedly, I think the beneficiary fund should pay its own expenses.

Q.—Do you think the beneficiary fund is not being saddled with its fair share of expenses? A.—I don't think so.

Q.—Is that a matter that has been discussed? A.—Yes, we have discussed many a time. If you notice in the general law a provision is made for all payments in respect of the beneficiary fund being paid out of that fund. I brought that up in regard to my salary. I wanted to be paid for the beneficiary fund, out of the insurance monies. However, they never listened to me.

Q.—Why did you want that? Was there any personal element there? Did you think your salary would go up a little more rapidly in the insurance branch? A.—No, I think my salary was too small as it was.

Q.—You thought there should be something paid out of the insurance fund to you? A.—Towards an increase of salary.

Q.—And that has never been done? A.—No. They made me a grant of $400 for 4 years at the last High Court Meeting.

Q.—You speak of that as if it was an insignificent amount? A.—Well, I did not think it was a sufficient return.

Q.—Do you print all your by-laws, rules and regulations on your certificates as Section 9 requires that you shall? A.—No they are not all printed there. They were curtailed in 1901.

Q.—What do you mean by curtailed? A.—Only the law as affecting the beneficiary fund.

Q.—Some rules? A.—Yes.

Q.—Are these all the rules that govern the man that is insured? A.—Not as they are printed in the general laws.

Q.—Then what is he governed by, the rules that are here or in the general law? A.—The rules that are there. They are the principal ones.

Q.—This section says that every person shall receive a policy of certifi-

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

cate of membership on which shall be printed the by-laws, rules and regulations relating to membership or to conditions of membership and so long as such conditions are complied with he shall remain a member of the Society and enjoy all the benefits and privileges of membership? A.—Well, you see he gets a copy of the by-laws with his certificate.

Q.—But this says they shall be printed on his policy or certificate and it is only the rules on his policy that he is bound by, apparently, because it says, so long as such conditions are complied with he shall remain a member? A.—I think if you will read them you will find all that affects the membership is printed there. The other rules affect myself and officers, the courts and so on in regard to remittances and so forth.

Q.—These seem to be rules relating to insurance rather than the rules of your organization regarding the insurance branch? A.—The rules of insurance, yes. They are copied out of the general laws but they are the only laws that really affect the members, you will find.

Q.—Then Section 10 is a section that provides for the reserve (reads this section). That section provides for a reserve on future policies and not on old policies, doesn't it? "Issued after the passing of this Act." A.—We put up reserves on all of them.

Q.—You were required, under this Act to put up the reserve merely on the new business? A.—On the new business.

Q.—Why did you put up a reserve on the old business? A.—When the Act of Incorporation was passed there were two funds, A and B. A consisted of the members of the old beneficiary fund, only, before the Act. B consisted of those members who joined since the Act. The Executive Council thought that if we were to be restricted to fund A that the old members, the fund belonging to them under fund A, would be soon eaten out and we would be gone up in smoke; and so at the next High Court meeting the matter was brought up and referred to a committee to transfer all members from fund A to fund B.

Q.—That is the explanation I expected you to make. That is to say while the Act required you to keep a reserve on new policies only, that the necessity of the case drove you to transfer the old members to some other method whereby they would be protected? A.—Yes.

Q.—Otherwise the first of them that died would be paid and the fund would be eaten up to the loss and detriment of the persons who survived in that class? A.—Yes.

Q.—That is to say when you commenced working under this Act you would cease bringing in any new blood into the old Fund A? A.—Just so.

Q.—It would become a set body of persons not subject to change except by death? A.—Just so.

Q.—Then not having a sufficient fund to pay off these persons, the last ones that died would not be paid their insurance? A.—No, they would not get anything at all.

Q.—That was one way of looking at it. On the other hand if the persons in Fund A were to be protected as between themselves they would all have to pay premiums advancing in amount very rapidly by reason of their age? A.—Yes.

Q.—If they were to be paid by rates from themselves, or else they had to be transferred to Fund B, on some equitable basis? A.—Yes.

Q.—Then do you think that it is possible to work out a plan to transfer an assessment society to a regular reserve association, leaving part of the business assessment and the new part with a full reserve? A.—Leaving which.

Q.—Is it possible to change from an assessment company to an ordinary company with the full reserve by leaving part of its old business on the assessment plan? A.—Oh, no.

Q.—Apparently your Act contemplated that that might be done? A.—Yes, allowed us to do that.

Q.—The general provision of the Insurance Act, I suppose you are aware, contemplates that? A.—No, I didn't know that.

Q.—It contemplates that the new business shall be on the reserve basis and there has been discussion as to that not being practical to work it out in that way, and you think it is not? A.—Not if it keeps part assessment and part with a reserve.

Q.—You say when this matter came up it was referred to the Executive Committee to deal with in some way so as to get all persons in Fund A transferred to Fund B? A.—Yes.

Q.—That is in the '99 Minutes? A.—Yes.

Q.—I notice at the end of Section 10 there is a clause about valuing policies. I suppose that does not affect

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

your method of valuing policies; you value them just the same as you would if you were an ordinary company, do you not? A.—Yes.

Q.—For instance, this semi-endowment policy? A.—Prior to 1900 we valued at 4 per cent. and the others we have valued since that time at 3½.

Q.—You have valued the new business at 3½ and you have not changed the old? A.—We were allowed 4½ but we brought it up to 4 per cent., which is a benefit to the members.

Q.—Did you commence that business at 4 per cent.? A.—The first year we valued at 4½, afterwards at 4.

Q.—Are you doing anything now to get ready for the complete change in reserve to 3½? A.—It will take us some little time. We have so many old members that we have to consider and it will be slow.

Q.—Do you mean to say that your death rate will be high? A.—The death rate must be high for a time.

Q.—Until you bring in new members? A.—Yes.

Q.—A good deal of the business you had will pass off your books before the time comes to change it to 3½? A.—Yes, I think so.

Q.—Can you say what percentage that was in force at the passing of the Act will remain in 1915 when you must have the change completed? A.—No, I have never considered that, but I know that all our deaths with the exception of two since '98 have all been old members of Fund A, that shows the necessity of change.

Q.—It shows the necessity of the change you name? A.—Yes.

Q.—You did not make it any too soon? A.—Not any too soon.

Q.—Then there is a provision in subsection 2 that you must keep separate books and keep the Funds A and B separate. Have you done that? A.—Yes, we did that up to the time of the Act of Incorporation.

Q.—Did you succeed in getting all your members transferred from Fund A to B? A.—Yes, all but those who did not take any option at all.

Q.—And those who did not take any option, how many of those remain? A—Not a very great many.

Q.—What condition are they in now with regard to the Association? A.—They are out of the Association now.

Q.—All the persons that are still members of the Association are in Fund B? A.—Are in Fund B.

Q.—There is no Fund A left? A.-No Fund A at all.

Q.—Then you were required whenever called on by the Minister of Finance to send in returns. Do you send in a return each year? A.—Annually.

Q.—Just the same as ordinary companies? A.—Yes.

Q.—Has there been any discussion of putting up the deposit with the Government as required by Section 12 and enlarging your powers? A.—We have talked amongst ourselves about it, but not generally. The Executive Council speak about it among themselves, and some think it is desirable and others think it is not. We are perfectly willing to do so.

Q.—Then you made a report on that Act and the causes that led up to it at the meeting in 1899? A.—Yes.

Q.—And that is given at pages 78, 79 and 80 of the 1899 book. That sets out what we have gone over regarding the Quebec legislation? A.—Yes.

Q.—At page 79, what do you mean there by the reference to the special Act, which was against the policy of the present or preceding Governments to support or encourage; were you referring to an Act enabling you to carry on assessment business without any reserve? A.—I presume so.

Q.—And that you understood and believed to be against the policy of the Government? A.—No doubt about it.

Q.—Then you refer to the discussion with Mr. Fitzgerald, the Superintendent of Insurance, and the report he made and the proposition was finally accepted in the form of Section 10. Now you say that that report came before the meeting for that year and at page 81 there is a motion that the action taken by the Executive Council on the matter of the Charter of Incorporation was in the best interests of the Order? A.—Yes, that was carried.

Q.—The action was approved. Was that what you refer to as being the resolution that delegated the matter to the Executive Council? A.—That is right. Changing from Fund A to Fund B.

Q.—Then there was a Beneficiary Committee appointed that year? A.—Yes, a committee of the High Court.

Q.—What were its duties? A.—To consider matters in connection with the Beneficiary Fund.

Q.—And report to the High Court? A.—Yes, during its sittings.

Q.—Then that Beneficiary Committee made a report which appears at page 110, and that report was adopted

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

at page 104. That left the working out of the details of the scheme to the Executive Council? A.—Yes.

Q.—Then there is a second report of the Beneficiary Committee. Those two resolutions were both adopted unanimously? A.—Yes.

Q.—Then at page 117 in the same book is the scale of rates that was adopted. First? A.—Yes.

Q.—So that at age 25, which is one of the ages we took before, your rate then became raised to $1.19? A.—Yes.

Q.—And at 35 $1.58, and at 44 $2.18? A.—Yes.

Q.—So that your rates under this Act, according to the schedule then prepared, exceeded the rates that you were required to levy by the Quebec Act? A.—Yes.

Q.—Your private rates had been lower and now you put them higher than the Quebec provision? A.—Yes.

Q.—That covers then everything that you did in 1899 in preparation for getting your company on the full reserve basis? A.—Yes.

Q.—Then between 1899 and 1901 there was no other meeting of the High Court? A.—No, there was no meeting of the High Court.

Q.—You were given until the 1st November according to this resolution to get the members from Fund A into Fund B on some equitable basis? A.—Yes.

Q.—That resolution was passed in August, 1899? A.—Yes.

Q.—That was altogether too short a time, was it not? A.—It was too short a time, we could not get the work done.

Q.—It would be impossible to get it done in that time? A.—We extended the time for the members.

Q.—The Committee itself extended the time? A.—Yes.

Q.—Until when? A.—Some of them February and March.

Q.—Then the next reference to the matter appears in the book of 1901 at page 10, where the High Chief Ranger reports on what you have done in the interval? A.—Yes.

Q.—And he there sets out the options you gave the members of Fund A as to changing to Fund B? A.—Yes.

Q.—He refers at the bottom of page 10 to the necessity for the Executive Council devising ways and means by which the members of Fund A might be transferred to Fund B, and have certain options placed before them for their consideration and acceptance. This was after a great deal of consideration and hard work accomplished. Then that was approved of and the report sets out the options. (Reads Option No. 1.) A.—That was by way of reduction of premiums.

Q.—There were four options set out that were given to the insured? A.—Yes.

Q.—It was a choice of methods by which he would have the benefit of the accumulation that you had of some $30,000? A.—His share, yes.

Q.—Can you tell me by what method you distributed to the different members their fair share of that accumulated surplus of $25,000 or $30,000? A.—That matter was left in the hands of Dr. Secord.

Q.—Probably Dr. Secord will tell us here. I do not know that it will be necessary to get more from him than just as we go along. How was that divided, Dr. Secord? (Dr. Secord answers until a change is indicated.) A.—That was the accumulated reserve. It was apportioned among the members and then the required Government reserve was reckoned and a percentage of, I think, 20 per cent. was found; that 20 per cent. of the required reserve could be made among the members.

Q.—Let me see if I understand you. You first divided the actual surplus that you had amongst the members and apportioned it to them. On what basis did you do that? A.—In round figures, if I remember correctly, there was some $32,000. It was considered that a certain portion of that would be required to pay for the extra death rate which would be experienced because of the fact that these members were being taken into Fund B without examination at the time; there would be an extra mortality. So a certain portion it was considered it was advisable to set aside for that purpose. There were some accrued liabilities to meet and there were the expenses of the transfer to meet. The reserve required by the Government standard was reckoned according to the attained age of each member. Then the reserve was reckoned according to the age of each member, of what the valuations after these sums which had been set aside and required would amount to, and it was found that that would be practically in round figures 20 per cent. of the required reserve, so that 20 per cent. of the required reserve was distributed among the members.

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

Q.—That is, as I understand you, having ascertained what every policyholder or every member's share of the proper Government reserve would be and then what his proper share of the actual surplus you had in hand after setting apart certain monies for certain purposes, you found you had about $1 out of every $5 there for him? A.—Precisely.

Q.—And that he had to raise $4 out of $5 to make good his reserve to the Government? A.—That is one way of putting it.

Q.—It had to be raised in some way? A.—Oh certainly, he had to come up to the standard.

Q.—And he was about 1-5th of the way towards the standard by reason of the accumulation you had for him already? A.—Yes, which he got the benefit of.

Q.—I suppose if he did not take one of those four options he did not get the benefit of that surplus money you had? A.—He simply became a lapsed member.

Q.—Was there any option given to him to pay increased rates merely, separate from these four options in here? A.—There would be no possible reason for that, because if he did pay the increased rate required, he would be given the benefit of the amount of reserve he had accumulated.

Q.—In fixing that increased rate? A.—Precisely.

Q.—But I mean to say everything that was presented to the man was in these four options? A.—Yes.

Q.—This circular that was issued to the members will be Exhibit 325 (Read and filed as Ex. 325.) The four options are set out here so that in addition there was a notification to the member that if he did not take one of these four options that he would have to pay these increased rates. Isn't that right? "Under this regulation your contribution at age next birthday will be so and so unless advantage is taken of one of the following options." Was not that an intimation to him that he had to pay the increased rates then adopted anyway and if he did not take advantage of one of these options he would lose his interest in that surplus? A.—It reads that way. It is presumed that he would be given notice that his monthly rate would be $3 in that particular case, but the fact is that the reserves were made up for every individual case and consequently even without his specifically accepting an option I presume that his account would go in with the benefit of the reduction of the premium.

Q.—That is not the intimation that is given to him? A.—No.

Q.—The intimation that is given to him that unless he takes adavantage of one of these options he practically loses his interest in that surplus fund? A.—It is hardly reasonable to suppose that a man would do that, that he would continue paying the amount required.

Q.—That practically means that he has to take one of the options if he is going to continue? A.—I should think so.

Q.—Was not that the object of putting it that way, so that there would be on the face of it a substantial advantage to him to take one of the options? A.—I would think so. There was no recourse; the High Court made the rate and the member had to pay it; now if there was anything at the credit of the member he would get the advantage of it.

Q.—Although it was brought about by the Act requiring the reserve, still the rates having been changed they were at once changed for old and new members both? A.—Yes.

Q.—And then you told him, now you must pay these new rates but if you choose one of these options you will be given a certain allowance or consideration by reason of your interest in the surplus funds of the association? A.—Yes, given that advantage.

Q.—That is your understanding too, Mr. Williams? A.—Yes.

Q.—Dr. Secord (continues.) It practically means that he had a certain sum to his credit in the old reserve. Now he is given credit for the sum that that would buy an annuity for.

Q.—If that would buy an annuity of 22 cents that is taken off his premium? A.—Yes.

Q.—It is a method of giving him credit for the surplus money by way of reduction in his premiums? A.—Yes.

Q.—It is a charge against the amount payable under the certificate? A.—Precisely.

Q.—It figures out in this way; amount of certificate, $1,000; then take the standard reserve, $177.54 in this particular case and the share of the accumulated reserve being $35.52, leaving a balance of $142.12, and that amount is made a lien or a charge against this $1,000 certificate? A.—Precisely.

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

Q.—Making a balance of $857.88. And then on that you charge interest? A.—Interest on the lien.

Q.—His old rate of contribution at age 38 was $1.75; the interest on the lien would be 60 cents and his net rate payable monthly $2.35? A.—You get the net rate.

Q.—That would be the new rate of contribution at age 38, wouldn't it? A.—Yes.

Q.—You take the new rate, add to that the interest on this lien and this gives you the monthly rate he pays and at the end of the time the amount of the lien is deducted from the certificate? A.—Precisely.

Q.—The third option is to continue payment on the original rate and receive certificate for such amount as rate paid and share of reserve will purchase at the new rates. What does that option mean? A.—It means that he gets just what insurance his rate will pay according to the new rates, although he is paying the old rate.

Q.—Assuming that the man does not want to pay out any more money than he has been paying in the past, you say to him, we will give you credit for your share in this old reserve and having given you that and you continuing to pay the old premium, we will give you just what insurance that is worth on the new standard? A.—Precisely.

Q.—Then option 4. What does that option involve? A.—It simply gives him a paid up policy, I think it was for 80 per cent. and then it drops out.

Q.—The same way as your policies are now; if a man wants to drop out he does so, taking a certain value in cash or a paid up policy? A.—Precisely.

Q.—Those are practically all the options you could offer him? A.—I I don't know of any more.

Q.—Up to that time he was subject to a raise in contribution at any time? A.—Yes.

Q.—And you had a right to put these new rates on him? A.—The High Court said so.

Q.—That was not questioned was it, by any of your members? A.—No.

Q.—Then you said, the new rates are applicable to your case but in order to get you committed to a certain way of dealing with your case we set out the different methods in which the present reserve will be treated for your benefit? A.—Yes.

Q.—Did most of the members take one or other of the options, Mr. Williams, at once? (Mr. Williams now answers.) A.—Yes, most of them.

Q.—Those that did not take one of those four options and did not pay the higher premiums, their policies would lapse? A.—Yes.

Q.—Had they a certain value at that time under your formed system? A.—No.

Q.—So everything that fell into the company or the association by reason of that surrender was profit? A.—Well, it all came into the general fund. I cannot say that it was profit.

Q.—It did not go back? A.—No.

Q.—Those that gave up their insurance lost it all? That was a hardship on them? A.—I think so.

Q.—Could that have been obviated in any way you know of? A.—Not at the rates they were paying.

Q.—What do you mean by that? A.—Well, they were paying a rate that did not allow of putting up a reserve to meet the liability.

Q.—What I am trying to get at is, from the result of your experience in going through this transaction and getting your old policyholders transferred from one class to another, whether in any way the method of doing it could have been improved on in order to save those people who dropped out? A.—I don't think so. There were very few who had much at stake. The principal ones who had money at stake stayed with us, men of 40 to 65 years of age stayed with us. It was only the younger members who dropped out and very few even of them.

Q.—So that substantially this was accepted by the members? A.—Yes.

Q.—After a good deal of grumbling, I suppose? A.—Oh well, of course, there was grumbling at the change, but not after it was explained.

Q.—I see that after this meeting of 1901, you remember how they dealt with you? A.—Yes.

Q.—They passed a vote of censure, practically, did they not? A.—Well, pretty nearly.

Q.—The Beneficiary Committee of that year passed a resolution at page 114 of this book of 1901, Exhibit 323. The first paragraph is a rather forceful way of putting it? A.—Yes, but that report did not carry.

Q.—Then report No. 2 appears at page 113 and that report carried? A.—Yes, but then there is another report. They brought in another report and it was referred to the High Court

51st day, July 9th, 1906.

solicitor, Mr. Jeffrey, of London, to bring in a scheme.

(Adjourned to 2 p.m.)

AFTERNOON SESSION.

Resumed at 2 p.m., July 9th, 1906.

Examination of Mr. Williams continued:

Q.—After the report of the Beneficiary Committee that I read before adjournment there was another report put in by the same Committee, I read to you a portion of the two? A.—Yes.

Q.—There was a previous report sent in by the same Committee; that dealt with your recommendation, you remember? A.—Yes.

Q.—"Your Committee having considered the Permanent Secretary's report referred to them," etc. (Reads report of Committee on page 84 of Exhibit 322.) That reference to the Courts meant the local Courts of your organization of course? A.—In reference to the Local.

Q.—That report or recommendation you sent in is given at page 16 of this book? A.—Yes.

Q.—And there you made some recommendations as to the conduct of the Insurance Branch of the business? A.—Yes.

Q.—You say at page 16, "I would recommend," etc. (Reads recommendation.) Then the report includes a copy of the Act at page 16, and you go on at page 20 with your recommendations? A.—Yes.

Q.—And you recommend some rules for the fund, including the following: "All applicants shall make application on the form provided," etc. (Reads) Then you give a schedule of rates you recommend; you give rates for different kinds of policies? A.—Yes.

Q.—Was that recommendation sent in by you as the result of a conference with the other officers or was it your own initiative? A.—A conference with the Executive Council, but it was my own view.

Q.—But it meant with the approval of the Executive Officers first? A.—Yes.

Q.—The apparent object of these recommendations would be to get into the insurance business a little more generally than you had been? A.—Yes, so that we could have more con-

trol, and the members of the Fund could have more control of the fund.

Q.—The members of that branch would have a distinct, separate control of their own funds? A.—Yes.

Q.—Entirely separate from the Executive Council? A.—Entirely separate from the Executive Council.

Q.—The only bond between the two being the two members of the Executive Council on this Committee? A.—Yes.

Q.—Had anything occurred prior to the making of that report to cause you to think it would be advisable to have an entire separation such as that? A.—My only idea of the separation was that the members should have more control of the fund and act on their own behalf.

Q.—Why did you think that? A.—Because of the High Court meeting the Sick and Funeral members and the Beneficiary members are so mixed up that the Beneficiary members do not have control of the funds.

Q.—Do not have a separate control; you thought it would be better to have complete separation? A.—I thought so.

Q.—Had you not in your mind as well as that you would develop a larger insurance business? A.—No doubt of that.

Q.—Beneficial only from an insurance standpoint, and not beneficial particularly to the Order as a whole? A.—Oh I thought it would benefit the Courts by having more members come into the Courts.

Q.—But they would become members according to your scheme for the purposes of the insurance only? A.—Either that or both.

Q.—It would all tend to widen your sphere of influence you thought at any rate? A.—Yes.

Q.—Had it anything to do with any threatened use of insurance moneys for other purposes? A.—No, sir.

Q.—Has there ever been any discussion or attempt to divert the funds of the Insurance Branch? A.—No, sir.

Q.—Not at all? A.—No, sir.

Q.—What distinction would there be had you established this Court for Beneficiary members only from the present method—I thought you told me this morning that under the present scheme they can become members for the purposes of insurance only? A.—Yes, and then they would be members of a Court that was composed of Sick and Funeral members and Beneficiary members combined.

51st day, July 9th, 1906.

Q.—That is the way they are now? A.—Yes, but in this case they could institute the Court for the sake of the insurance only.

Q.—And have nothing to do with the Sick and Funeral Department at all? A.—Yes.

Q.—But under your present scheme a member can take the insurance without taking Sick and Funeral Benefits? A.—If the Court agrees to take him in as a member.

Q.—As a limited member—I think you call it an honorary member? A.—Yes.

Q.—Has that method of conducting the business been open to objection from your standpoint? A.—No, I think not.

Q.—But you thought you would lay down a general rule that would be applicable to all Courts, that they could have this Beneficiary Court if the parties desired it? A.—Yes. In the City of Toronto they have some ten or twelve Courts that are Sick and Funeral members and Beneficiary members combined; there are several members that do not care about taking the Sick and Funeral Benefit, do not require them, but they like the social part of the Order, and they combine themselves into a Beneficiary Court for the insurance and the social connection with the other Courts in visiting and so on.

Q.—Has that worked out in that way in actual practice, have you at the present time Courts— A.—For Beneficiary members only?

Q.—Yes? A.—Not now, there was one at Regina, now they are spread since the formation of the two Provinces, they have scattered.

Q.—Have you insurance for juveniles from five to eight years of age? A.—Not at present.

Q.—So that would be an innovation at that time? A.—Yes.

Q.—And you would have this insurance $25 or $250? A.—Up to $250 according to age.

Q.—A sort of industrial business? A.—A kind of industrial business, tending to thrift.

Q.—Have you investigated the expense of organizing these industrial insurance branches? A.—No, sir, I never went into the matter because we have never had occasion to do so.

Q.—One might think that you would have done that before making the recommendation? A.—When I say I have not gone into the whole matter I took up some of the English Industrial Societies and looked through them but not to lead me to—

Q.—This scheme of yours would have involved weekly or monthly collections? A.—Yes.

Q.—Do you still think the Ancient Order of Forresters should go into this class of business? A.—I think it would be a good thing for the young people.

Q.—You lay down some rules, and one of the rules would be a medical examination; do you not have medical examinations now? A.—Yes.

Q.—What change would this rule of yours involve then? A.—I do not think it would make any change.

Q.—I thought you had full medical examination? A.—Yes.

Q.—Then why did you propose the rule? A.—To complete my recommendation of the whole thing, to make the scheme complete.

Q.—And then you elaborate a number of hazardous risks and so on? A.—Yes.

Q.—For which extra premiums should be charged? A.—Yes.

Q.—Did you work these out by yourself or was that the result of consultation with some actuary? A.—No, I worked them out by myself as well as I could.

Q.—Have you any actuary in your Association? A.—No sir, not at the present time.

Q.—Have you felt the need of one? A.—Yes sir.

Q.—And do you think there should be one? A.—Yes, and no doubt will be one.

Q.—It would seem to one that having started at this sort of work you would require an actuary if the company would? A.—Yes, but up to the time we were working upon an economical basis, doing the best we could ourselves.

Q.—Until you could get established? A.—Yes.

Q.—After setting out all the rules you give the form of the policy at page 30 you propose and at page 31 you give tables for the continuance of policies in case there was a lapse? A.—Yes, in case of their not paying their premium in time.

Q.—You follow up your suggestions at page 31 in this way: "In submitting the foregoing proposition." (Reads down to the words "particular fund.") That would hardly apply because there would be two members of the Executive Council that would be

51st day, July 9th, 1906.

Ancient Order of Foresters, (Wm. Williams, Ex'd.)

on it? A.—I am referring there to the present time, to the present representation at the High Court meeting.

Q.—You say by your change, "None other than members holding Beneficiary certificates can have anything to say in regard to the fund?" A. —Those officers would have.

Q.—There would be that exception? A.—Yes.

Q.—Then you give a statement of the receipts and expenditures, and that was all submitted to the meeting? A.—Yes, of August, 1901.

Q.—Then the subsequent report is a report of Dr. Secord? A.—Yes.

Q.—Was that report considered at the meeting? A.—No, it was referred to the Laws and Relief Committee, and they did nothing with it.

Q.—They recommended that it should be submitted to the Local Courts? A.—Yes.

Q.—Was that done? A.—No, they took no action in the matter.

Q.—Has it ever come up for discussino since? A.—No.

Q.—And still stands just in that shape? A.—Still stands in that shape.

Q.—Why are not you pressing it on their attention? A.—Sometimes I feel that my recommendations have not been treated in the spirit they should have been treated.

Q.—I notice that the report of the Laws Committee number 6, page 112, is as follows: "That whereas the suggestions of the Permanent Secretary as to proposed amendments," etc. (Reads down to the word "thereon.") And that report was carried at page 108? A.—Yes.

Q.—And nothing has ever been done to carry out the ideas you suggested there? A.—No sir.

Q.—The Beneficiary Committee sent in a report number 3 at page 120: "Your Committee beg leave to recommend, etc. (Reads down to the word "submitted")—what was the object of that Committee in making that report? A.—I can only surmise their object. In connection with the paid-up certificate, where the ascertained reserve would be only about $25 or $30 and the paid-up $60, that they would get 75 per cent. of the face of the certificate, which would be more than they were strictly entitled to.

Q.—It was an attempt by this Committee to give some benefit to the old members which your options did not provide for them? A.—That is it, or those that did accept the options.

Q.—Even in the case of those that had accepted them it should be as a new proposition? A.—Yes.

Q.—And that was referred to Mr. Heyd and Mr. Jeffery as a Special Committee to report on that? A.—Yes.

Q.—And their report is at page 125, "Your Special Committee to whom report number 3 of the Beneficiary Committee was referred," etc. (Reads) That was submitted, and it was carried at page 122? A.—Yes.

Q.—That was an amendment of the option number 4? A.—Yes.

Q.—What was the nature of the fourth option? A.—To receive the paid-up policies.

Q.—Under this resolution you had to notify all these persons who were clear on the books on October 31st, 1899, that they could have the full amount of the accumulated reserve standing at the credit at such members at that date? A.—Yes.

Q.—And then would they drop out and cease to be members? A.—They would surrender their paid-up policy and—

Q.—They would cease to be members of the Beneficiary Fund? A.—Yes.

Q.—Was that done? A.—Yes, we paid over $6,000 out.

Q.—To persons who instead of taking any of these options or paying the increased premiums decided they preferred taking their share of the reserve fund that the Association then had? A.—Yes.

Q.—There were still persons who took the paid-up policies and did not choose to take advantage of this? A. —Yes.

Q.—But this was a new proposition that was made to them, whether they had accepted the fourth option or not, to give them that amount standing to their credit of the old reserve? A.—Only those that accepted the fourth option.

Q.—They could change their minds after they had taken the fourth option? A.—Yes.

Q.—Then you said this morning that there were some of their policies simply lapsed? A.—Yes.

Q.—And any share they had in that fund went to the benefit of the fund itself? A.—Yes.

Q.—Were they notified of this resolution of the Special Committee? A. —Everyone of them were notified.

Q.—Did they take their share of the reserve? A.—No, sir.

51st day, July 9th, 1906.

Q.—Some did and some did not? A.—I do not think there was any of them did.

Q.—Why? A.—I cannot tell you.

Q.—It would not have cost them anything to take it? A.—They would have had to surrender their paid-up certificates. Those that did not take any option of paid-up certificate certainly did not get any share of that reserve.

Q.—This resolution was for those who took Option No. 4? A.—Yes.

Q.—This resolution does not call upon you to notify persons whose policies had lapsed? A.—Not at all.

Q.—And you never did? A.—No, sir.

Q.—So that persons who were taking Option Number 4 had that privilege, but the others whose policies had lapsed did not have that privilege? A.—No, sir.

Q.—Does that show the extent of the recommendations made by you to the High Court with respect to this Beneficiary Fund, and to the extent to which they have been acted on, or have you made any other recommendation to the High Court that has been acted on? A.—No, I have made no other recommendation that has been acted on.

Q.—The matter just dropped, as that Committee said, to take no action, it stands that way to-day? A.—It just stands that way to-day.

Q.—Soon after the Act came in force and on the 21st February, 1900, the Executive Committee received delegates from London and Toronto? A.—Yes, sir.

Q.—What did these delegates want done? A.—I do not remember.

Q.—It says here, "After hearing as to a special High Court meeting the Executive Council regretted that it could not see its way clear to comply with this request, owing to the very small deputation"? A.—They wanted to call a special High Court meeting to discuss the matter of the Beneficiary Fund again.

Q.—That was after the meeting of 1899? A.—Yes.

Q.—That was after you had sent out the circulars showing the options the members would have? A.—Yes.

Q.—These delegates appeared before you with a petition and asked that a special High Court meeting should be held? A.—Yes.

Q.—Why was not it held? A.—The expense was the greatest element I believe.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

Q.—Or was it because you felt the members voting on this scheme you were putting through, believing of course that it was for their benefit to put it through, that they would vote against it if they got together? A.—I do not know, I do not know whether that was considered or not about their voting against it or not.

Q.—You are pretty sure they would? A.—No doubt about it, I think.

Q.—And did you feel it would be unsafe to give the members a chance to express their views? A.—I do not think that was the feeling of the Executive Council to debar any members expressing their views.

Q.—But you say the expense of the High Court would have to be paid out of the Management Fund? A.—No, it would have to be paid out of the Beneficiary Fund if it was called for the Beneficiary work, no doubt of that.

Q.—Would that expense be considerable? A.—Between three and four thousand dollars.

Q.—To bring delegates here? A.—Bring them from the West.

Q.—You refused to do it? A.—Yes.

Q.—You not only had that trouble but you had trouble with the agents of the association, the Secretaries, did you not? A.—Yes, they felt a little dilatory in the matter of taking up the new business, the new work.

Q.—What do you mean by the new work, getting insurance on the new rates or getting the members to sign one or other option? A.—No, it was getting the members to work for the benefit of the Insurance Department under the new Act.

Q.—They were rather criticizing the rates you had established and the Executive method of managing this Beneficiary Fund? A.—Yes, they were rather more than criticizing.

Q.—What were they doing? A.—Dr. Secord went down to St. Thomas and other places and tried to explain matters to them.

Q.—Explain what the gist of their complaint was? A.—"Freezing out old members, freezing out old members."

Q.—The old members had been paying in for some years at what you considered a grossly inadequate premium? A.—Yes.

Q.—And then they thought that these old members should be carried through and their certificates paid? A.—Yes.

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

Q.—I suppose that is always the cry when the time comes to raise the rates of insurance where they have been too low in assessment associations? A.—Yes; in other words, to take that money for the reserve out of their pockets.

Q.—When you are trying to bring the reserve out of the members' pockets, that is the complaint? A.—Yes.

Q.—And I suppose it is a real hardship on these parties, probably not one that they should have foreseen. but still it comes hard on them at the time you raise the rates? A.—There is no doubt they would feel it a little hard.

Q.—What action did you take about the agents? A.—The only action we took was an endeavour to get them to work for the interest of the fund and the more—

Q.—The Beneficiary Committee was empowered to cancel all commissions? A.—We did not do that, the general law—

Q.—And also empowered to appoint other agents who in their opinion were loyal to said Beneficiary Fund and Order generally? A.—Yes.

Q.—You were not experiencing much loyalty to the fund at that time? A.—Not at that time.

Q.—Was the Executive Committee unanimous at that time? A.—Yes, sir, the Executive Committee were unanimous, there was no objection among them.

Q.—I notice that on February 3rd, 1901, there was a resolution appointing a Committee to consider what percentage of the cost of management and the Permanent Secretary's office should be charged to the Beneficiary Fund of the Order? A.—Yes sir.

Q.—And a report was to be sent in, was that report sent in? A.—We took up the matter in the Executive Council and I—

Q.—And it recommended what percentage? A.—It recommended no percentage, because it brought forward the action that if they transferred any money of the Beneficiary Fund for the work being done for it that I would be entitled to a share of it, and it dropped.

Q.—Explain that again? A.—I said if there was any money transferred from the Beneficiary Fund to the Management Fund of the Order that I should have an increase in my salary out of that transferred money, and then it dropped, no more done.

Q.—As soon as you asserted your claim to some compensation out of that fund it dropped? A.—Yes.

Q.—Why did you consider yourself entitled to an increase if the money of the Beneficiary Fund was used for management? A.—It would be transferred from Beneficiary Fund to Management.

Q.—Why would that entitle you to an increase? A.—All the increase that would come to me have come out of the fund that was transferred to the Management.

Q.—That is you say you considered that it was your services that brought about this increased Beneficiary Fund, is that right? A.—Yes, I think there is a good deal in that.

Q.—Put it on a good basis? A.—Yes.

Q.—And you thought if the Management intended to take any one of those funds from the expenses of the organization that you should be recompensed? A.—That I should be entitled to a share.

Q.—And with that handicap placed on it it was never carried through? A.—Never carried through.

Q.—I see a resolution here that 5 per cent. of the premium income of the Beneficiary Fund be paid on the first day of each month to the Management Fund as a fair and equitable share of the management expenses? A.—That dropped.

Q.—That indicates, does it not, that where you have several branches to the one organization that there is always the danger of the money being diverted from the one fund to another, that might as well have been 25 per cent.? A.—I agree with you that there should be no diversion of the funds, the fund should pay its own expenses.

Q.—At the present time it is not paying its own expenses? A.—No.

Q.—The premiums should be higher yet? A.—No.

Q.—They would have to be higher in order to get the expenses, would not they? A.—No, I do not think so.

Q.—You mean by making a profit as you are? A.—Yes, we made a profit as we are, and we are paying no expenses out of the fund, only the Clerk, $500 a year.

Q.—And that is all your Head Office expense? A.—Yes, stationery and so on.

Q.—$500 for a Clerk, and there is stationery? A.—Yes.

Q.—Certainly there is no complaint to make of the Head Office expenses

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

of the Ancient Order of Foresters? A.—No, there is no complaint about that. I would rather see them a little higher. We have a surplus of $8,000 now to the benefit of policyholders.

Q.—Over and above your reserve for the benefit of the policyholders? A.—Yes.

Q.—That is after setting apart some special fund? A.—After setting aside $4,000 for the impaired lives, that is these old members we took in in the early years.

Q.—At whose suggestion was that $4,000 set apart? A.—That was my own work in doing that.

Q.—You thought by reason of the rather high mortality that you might experience? A.—Might expect.

Q.—You would set aside $4,000 to meet that? A.—Yes. We set aside $3,000 on a previous occasion, and that all went.

Q.—And I suppose you have no doubt that the $4,000 will go in the same way? A.—I think so.

Q.—I notice on February 11th, 1903, a communication was received regarding payment of medical examiner's fees so as to compete with other companies, wanted to raise it apparently to $4? A.—We never made the raise, but at that time the members were paying the entrance fee of $3 into the Beneficiary Fund, $2 of that went to the medical examination. We removed the $3 entrance fee, and we put a medical fee of $2.

Q.—So that no definite payment of $4 was resolved on for the medical examiners? A.—No.

Q.—The idea of this person writing would be I suppose you would enlist the help of the doctor, is that right? A.—We would get a better examination.

Q.—Was it just for the efficacy of the examination? A.—More for that.

Q.—This says to compete with other companies who paid that amount, it is a matter of competition? A.—It is a matter of competition in that respect, that was the Executive Council. You certainly get a better examination for $2 than we did for $1.

Q.—I notice you appointed a Supervisor of agents, did you not? A.—Yes.

Q.—At a salary of some $700 a year? A.—Yes.

Q.—And an allowance of $1 per day for hotel expenses, that was not a very liberal allowance? A.—No.

Q.—Would that man have other work to do for the Order? A.—No.

Q.—That would be the extent of his remuneration? A.—That is the extent of his remuneration, and for his Sick and Funeral work as well. If he got members for the Sick and Funeral as well as the Beneficiary that was all paid out of the Management Fund.

Q.—Were you able to get good men for that remuneration? A.—No, I cannot say we did.

Q.—How have you been remunerating your agents? A.—One agent we were giving a certain salary for one year, $100 a month, and $75 expenses, that was one. The next he came back the Executive agreed to give him $75 a month, and he was to make the money out of the members he brought into the Beneficiary Fund.

Q.—I notice in the list of commissions you say $4 bonus, 30 per cent. of first premium, 5 per cent. on the renewals for the first two years? A.—Yes, that is what we paid some of the agents, that was the General Secretaries that we paid that to.

Q.—Others got more? A.—This special agent got more.

Q.—None of these persons would devote their whole time to insurance? A.—No, they were just working men.

Q.—Working men who would have that as a little side means of income? A.—Yes.

Q.—Does that apply to this Superintendent of Agencies you established, would that be some person who would work at other work part of the year? A.—No, not to him, he had to devote the whole of his time.

Q.—$4 bonus, what does that mean? A.—Our present standard is $4 bonus for every $1,000 and over providing three months' premiums have been paid on the policy, and thirty per cent. of the first premium received, whether it is quarterly, half-yearly or yearly.

Q.—If it is payable quarterly he gets 30 per cent. of the quarter? A.—Yes.

Q.—Not of the full year? A.—No, and 5 per cent. after that time for the first year; after that 3 per cent.

Q.—I think the first two years? A.—That is the old one, but the present one—

Q.—Then it was 3 per cent. to the Secretary? A.—In that case the Secretary under that one got the 3 per cent. as well as the other, that made 6 per cent.

Q.—Does the Secretary get that now? A.—He gets only 3 per cent.,

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

and the other man does not work at all.

Q.—This is the Secretary's remuneration here? A.—Yes.

Q.—Without getting all the details of the way the money is divided, can you tell me about what percentage of the first year's premium is paid out by you to get the business? A.—Every policy cost us about $10.

Q.—That is you say $10 a thousand? A.—We pay $10 out for every policy we get.

Q.—And each policy is $1,000 in the average? A.—Yes.

Q.—What would be your average premium, $18 or $20? A.—Yes, more, 30 I guess.

Q.—I thought your premiums are considerably lower than the ordinary companies? A.—Three to four to five dollars a year, that is all.

Q.—Just the difference in expenses? A.—Just the difference in expenses.

Q.—Your expenses being received from another source? A.—Yes.

Q.—And practically paid by the insured in another means? A.—Yes.

Q.—Well, then, do you say you have to pay out about one-third to get the business? A.—I think so, I think you will find the returns show something about that.

Q.—I see your application for the increase was in February 10th, 1904, you sent in, To services August, 1901, to 1903, two years at $250 per annum, $500, and it was moved by Mr. Secord and seconded, that a Special Committee be appointed to take into accord and seconded, that a Special Committee report later that the general law has fixed your salary at $1,500 per annum for all Departments and that matters within the Insurance Branch are within the province of the High Court, and the question of extra remuneration should be made before the High Court at its next meeting? A.—Yes.

Q.—And as to some disbursements you claim you made, that they should be attended to? A.—Yes.

Q.—Were the disbursements afterwards paid? A.—No.

Q.—Was it brought before the High Court? A.—Yes.

Q.—But nothing done? A.—Yes, I got $400.

Q. But not out of the Insurance Branch? A.—Yes, $400 out of the Insurance Branch.

Q.—Direct from the Insurance Fund? A.—Yes.

Q.—I suppose it is fair to say that if your salary or the salary of any other manager of the Insurance Branch and the salary of all persons for work they did in the Insurance Department, and all expenses of that department were taken out of that department that it would necessitate some increase in your rate, would it not? A.—No, I do not think the rate need be increased.

Q.—You do not think they need to increase the premiums at all? A.—No, I do not think so.

Q.—Because it seems to me they are low now? A.—Yes; I think last year we made a profit of about $6,000.

Q.—Under your present rules and regulations who has the power to make investments? A.—There is no rule for investments, but it is referred to a Committee to make investments.

Q.—And who compose the Committee? A.—In one case Dr. Secord and myself composed the Committee.

Q.—In what case? A.—In the Dominion Permanent Loan & Savings Company and in the Royal—

Q.—That was a special Committee appointed? A.—Yes.

Q.—But was not authority given to make investments to the High Chief Ranger and yourself? A.—Yes.

Q.—And one other, or just the two of you, which? A.—Just the two of us I think.

Q.—Do you two do all the investing of the funds? A.—At the present time there is a Committee of three, myself, the High Chief Ranger and Mr. Butt.

Q.—And do you supervise the investment for all funds of the association or just the insurance branch? A.—Just the insurance branch. We have investments in the other branch as well, separate.

Q.—You have never, you say, lowered the age to five to eighteen, as you propose? A.—No, nothing has been done in that.

Q.—Have you increased the age? A. We have increased the age up to sixty.

Q.—That was done, I see, on September 18th, 1905? A.—Yes.

Q.—And rates were to be prepared? A.—Yes.

Q.—Since the transfer to the full reserve your business has been I suppose as successful as you anticipated it would, has it? A.—Yes, there is no doubt of the improvement; as an instance of the improvement, and as an instance of the security members that used to pay monthly now pay quar-

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

terly, half-yearly and yearly their premiums.

Q.—What do you mean by that? A.—They took their policy on a monthly basis, and they changed to a quarterly basis, or half-yearly basis, or yearly basis.

Q.—What does that indicate? A.—It indicates they had more sense of security in the Fund.

Q.—They were willing to pay for a longer period? A.—Yes.

Q.—Has the business developed as rapidly as you expected in the way of taking in new lives? A.—It has developed as rapidly as we thought it would, and would have made a good showing only for those numbers that dropped out with their paid-up policies.

Q.—I see at first that there was a considerable amount of lapsing? A.—Yes.

Q.—In the year 1900 apparently there was a lapse rate of about 35 per cent.? A.—A very heavy lapse rate.

Q.—That would be accounted for by the disgruntled members I suppose? A.—By the condition of men taking one with the other I suppose against the Society.

Q.—And then in 1901 the lapse rate got down to 19 per cent.? A.—Yes.

Q.—1902 down to 11 per cent., 1903, 9 per cent., 1904 it comes back to 11 per cent.; 1905, 15 per cent.; can you account for 1903 being so much smaller than other years? A.—Yes.

Q.—How was that? A.—The employment of an agent is not as remunerative as it should be. They would get applications for policies, send policies in, and policies would be issued and not taken up.

Q.—How do you account for that? A.—Perhaps the desire of the agent to force business.

Q.—Why in 1903 was it less than in 1902, which was the same as 1904, why was there that drop in 1903 as compared with all the other years? A.—I cannot really tell you any particular reason.

Q.—There was nothing special about that? A.—No.

Q.—Down to 1903 I suppose you were continually, for a year or two getting rid of members on account of this change? A.—1903?

Q.—1902? A.—Of course there were several members dropped out.

Q.—And then 1903 I suppose all that were going out for that cause would be out? A.—I should presume so.

Q.—And 1904 and 1905 is it fair to say you were commencing to get after business like other companies, and were pressing for business? A.—Trying to.

Q.—And the applicants not taking up their policies? A.—The applicants not taking up their policies makes it bad.

Q.—And you were giving a little better return to your agents then too? A.—Yes.

Q.—Did you find any members of the Order leaving and going in a group to other fraternal Societies? A.—None whatever, it was not general, the feeling was not general.

Q.—Would there be any attempt by other agents to get your members, and have them disaffected and leave? A.—That I cannot say, I would not like to say so.

Q.—I was wondering what sort of rivalry there is between the Fraternal Orders? A.—There is rivalry between the Fraternal Orders, especially Assessment Societies. "We will give you insurance for so much less; we are just as safe as they are; no deposit with the Government" and everything used, and whereas probably they had no deposit with the Government themselves.

Q.—Take your busines in force, that shows a decline too during the first two or three years, but you have been increasing it lately? A.—Yes.

Q.—In 1900 the amount in force was $891,063? A.—Something like that.

Q.—1901, $684,089; in 1902, $750,-378; then in 1903 it commenced the other way, it became $757,790; in 1904, $862,840; in 1905, $1,026,911? A.—Yes.

Q.—You changed your business from one where the amount of insurance in force each year was decreasing to one where it is increasing? A.—Yes.

Q.—And do you think that increase will continue? A.—I think so, I have every reason to believe so.

Q.—Notwithstanding your rates are so much higher than they were before? A.—It seems more of an incentive for them to take hold of insurance.

Q.—Can you say you find your members more willing to enter your Insurance Branch now with your rates as high as they are and the reserve kept up than they were before when the rates were low and no reserve? A.—A great deal more so.

Q.—Do you think the same thing would apply to other fraternal organizations once they have the change

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

accomplished? A.—I think so, I do not see why it should not.

Q.—You think that unless a change is made that assessment companies must sooner or later come to grief, it is just a matter when the young lives are not brought in fast enough to replace the older members? A.—Of course as soon as that begins the young lives will drop out and leave the old members.

Q.—As soon as that time comes the young lives stop coming in much more rapidly than before? A.—Yes, and they will drop out.

Q.—And it leaves the old members alone? A.—Yes.

Q.—I will put in a short statement for each year showing the surplus at the end of the year, the receipts for premiums and interest, the death claims paid? A.—Yes, sir.

Q.—The surrender values, expenses and total expenses? A.—Yes.

Q.—That means you have taken the expenses of the business and added it to the amount paid out in death claims and that makes the total expense in the outside column? A.—Yes.

Q.—And that shows that the surplus was $10,000 originally, in 1901 it dropped down to $2,000, and then about $3,000 in 1902; in 1903 a little over $4,000; in 1904, $5,000; 1905, over $8,000? A.—Yes.

Q.—So that that shows an increase in your surplus in the last years? A.—Yes.

Q.—The decrease being also on account of this change? A.—On account of the change, and then there was a certain amount of liabilities in that of death claims.

Q.—Your receipts for premiums also show growth in the last year? A.—Yes.

Q.—It amounted to $26,317 as compared with $15,514 in 1900? A.—Yes, sir.

Q.—Of course your rates are much higher? A.—Yes.

Q.—You had a heavy death rate here in 1902, you had $12,242? A.—Yes.

Q.—Was that probably some special claim that fell in? A.—That is where the $3,000 provided for excessive death rates came in among the old members.

—Statement showing surpluses at the end of different years filed as Exhibit 326.

Q.—Have you in any way modified the way in which you tried to get business, you found it was costing you $10? A.—Yes; the present Executive Council now only pay the rates I spoke of, the $4 bonus and the 30 per cent. commission; we have no paid organizer now.

MR. KENT: Q.—Do you or your canvassers give rebates? A.—No, we do not give any rebates.

Q.—You have not got as far as that? A.—No, we give no rebates.

MR. TILLEY: No rebates at all? A.—No.

Q.—Nor do the agents give any rebates? A.—No.

Q.—I suppose that is something you could not tell very well about? A.—I do not see how they would, they might give $1 or $2 probably, but it would not be any very great inducement.

Q.—The full amount of their remuneration is so small? A.—Yes.

Q.—Then this is an exhibit you have prepared showing the volume of your business as set out in the different classes of policies? A.—Yes.

Q.—The principal part in 1899 being all life, $889,063, a compared with $2,000 in twenty payment life? A.—Yes.

Q.—Has that proportion altered? A.—We get them here, there is a little difference there.

Q.—In the later years, 1904, you get the payments? A.—Yes.

Q.—What proportion of your policies are with profits and without profits? A.—There are very few without profits, because the premium on those is smaller than the net premium on the Hm. tables and we would be losing money on them.

Q.—You would be losing money on the without-profit policies? A.—Yes, on the scale of rates.

Q.—That means you do not encourage it? A.—We do not encourage it, in fact we are very seldom asked for it

Q.—Why don't you raise your rate for the non-participating? A.—That must be done at the High Court meeting.

—Memorandum showing volume of business in the different classes of policies marked as Exhibit 227.

MR. KENT: You regard your non-participating policy as just a job lot? A.—Yes, it is a cheap insurance and sound. If there was any change in rates it would only affect new members that came in.

MR. TILLEY: Q.—Can you fix on what proportion of the business is non-participating? A.—There is not a dozen policies that are non-participating.

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

Q.—Don't you sometimes throw off the initiation fee in order to get members? A.—No, sir.

Q.—Never do that? A.—No, sir.

Q.—Don't you have some quiet months like June, July and August? A.—No; no rebates. We issue the policy and expect the premium to be paid from the date the policy is issued.

Q.—Do you make up the rates of premiums? A.—Not for the first—

Q.—Who made them? A.—Dr. Secord made them up.

Q.—Is he an actuary? A.—No sir, I do not suppose he is an actuary.

Q.—He thought he would get them about right? A.—About right, economical again.

Q.—Do you understand the principle on which they were made up, or should Dr. Secord tell us? A.—I think Dr. Secord could give you that.

—Dr. Secord answers the questions until a change is indicated:

Q.—You say that the rates are made up on the Hm. reserve at 3½ per cent. with Canada Life Mortality experience plus 15 per cent. expense element, that is for some of the rates? A.—Yes, 15 per cent., and then there was $2 added, if I remember right.

Q.—That is with a constant of $2? A.—Yes The Hm. tables we used, and the Canada Life Mortality; we had found that our own mortality rather accorded with that of the Canada Life and consequently we felt quite safe in using the Canada Life mortality; with the element of mortality and the element of reserve, then we put 15 per cent., and I think $2 added if I remember correctly.

Q.—The $2 is not shown here? A.—It was upon the same basis but less I fancy than the regular companies made their rates.

Q.—Your premiums are not as high as the regular companies? A.—No.

Q.—Their loading would be more than 15 per cent? A.—Their loading was rather more.

Q.—What did you take into account when you made your loading less than the regular companies? A.—The fact that we should be able to get business with much less expense as a fraternal organization.

Q.—Why, because of the work of the members themselves in getting others in? A.—Precisely; largely the individual effort of the individual members. It is a very large factor.

Q.—I suppose meeting in the social way in which they do in their meetings would tend to one getting the other in with a small inducement to the person who acts as agent in that way? A.—Yes.

Q.—That would be so; then anything else besides that feature, the low cost of getting business; would you take into account anything in the way of the management being cheaper by reason of having the whole organization bearing the general expenses? A.—That is the case, although I think probably in my own opinion that is rather a damage than otherwise.

Q.—Why do you think that? A.—Because there are so many who are not interested in the Insurance Branch who have largely to do with the management of it. Those who are interested and insured in the Branch—I believe the management, if it were managed as recommended by Mr. Williams, that there would be more active efforts made to get members.

Q.—To make it a success? A.—Yes. In a Society like this you must remember that sentiment is a very large factor. If the sentiment is unanimous in favor of the organization and of the Branches, why then the sentiment is a very great help, but if there is considerable sentiment among a large number of the members adverse to the organization you can readily understand that it would be rather a damage than a help.

Q.—If there is adverse criticism by the members? A.—Yes.

Q.—Did you find that to be the case when you were making the change? A.—Necessarily so.

Q.—That would tend to hold back your insurance work for some time or make it harder to get business? A.—Undoubtedly, you will understand this is the only fraternal organization that has been able to effect that change.

Q.—In Canada? A.—Yes.

Q.—I suppose you pride yourselves in that regard, properly so? A.—We feel confidence in the fund.

Q.—Has the period of criticism passed now from your members? A.—I wish I could say yes, but I fancy not altogether, although there is a considerable change in late years in the confidence which the members are showing towards the funds. Those who were the deadliest enemies in 1898 some of them are now quite friendly towards us.

Q.—So that you think your ability to get business will increase now? A.—It should.

51st day, July 9th, 1906.

Q.—By reason of the proper sentiment existing between the members in regard to this fund? A.—It should.

Q.—Because there can be no doubt that that would be a great factor? A.—I should think so.

Q.—Was there any other phase of this insurance that appealed to you as being a ground for making any distinction between your rates and the rates of ordinary companies? A.—The fact that the expense of the ordinary companies has been so large, and believing we could get business among our members and among the outsiders who would be influenced by existing members if we could have a unanimous sentiment in favor of it we believed that would be a very large element towards lessening the expense, and I see no reason now why a fraternal organization should not effect insurance on its members at much less cost than the regular insurance companies do. You will have had evidence of that before this Commission.

Q.—I think there has been some evidence in that direction. Were you in sympathy with the recommendations made by Mr. Williams as to changes in the mode of carrying on the Insurance Branch? A.—Yes, I think we have been associated a good many years and I fancy our ideas run pretty well concurrently in regard to what is required.

Q.—Do you think that members who are members of the Insurance Branch only pay their fair share of the general expenses of the organization? A.—That is a very difficult question to answer.

Q.—What do they pay towards expenses other than their premiums at the present time? A.—They practically pay nothing except what has been said.

Q.—What is paid to their Local Courts? A.—The great majority of them do belong to the other fund. I think there is a very great minority who simply have insurance without belonging to the Sick and Funeral Branch. If they belong to the Sick and Funeral Branch they pay the Management expense of that branch just the same as the regular members.

Q.—What do they pay towards Mr. Williams' salary? A.—If they are Sick and Funeral members——

Q.—Supposing they are not, a member of the Insurance Branch? A.—Supposing they are not I fancy they pay nothing.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

Q.—Mr. Williams told us they paid $1 a year? A.—Yes, as honorary members they do that, but that goes to the Subordinate Court, it would not come to the High Court.

Q.—I suppose it goes to defray the cost of keeping up the good fellowship that assists you in getting business? A.—Yes, paying rent and one thing and another.

Q.—Can a person get insurance in the Ancient Order of Foresters without being an ordinary or an honorary member of that body—could I get insurance if I went in and just asked for insurance without wanting to join? A.—Probably I am not the proper party for you to ask that question of.

Q.—I would like to know from you? A.—I would think under the general laws you would have to join a Court. My opinion has been that the Order could organize Courts for Beneficiary members only. In that case the Beneficiary members, if there were 20 or 30 of them organized, of course they would have to pay the expense of the running of that Court, whatever their meetings would cost, and rent outside their premiums.

Q.—Have any persons taken insurance in the Ancient Order of Foresters without being a members of the Institution? A.—Without being initiated, you mean?

Q.—Without being a member in the way of paying a cash fee or a fee towards the expenses of the Local Court, or anything of that nature? A.—There is a Court in Toronto where the members are simply members of the Insurance Branch.

Q.—Tell me how that is organized? A.—It is organized in the regular way as a Court.

Q.—They have meetings, do they? A.—I am not aware of that, I don't know.

MR. WILLIAMS: Very occasionally.

MR. TILLEY: Do they pay an initiation fee?

MR. WILLIAMS: They pay no initiation fee.

Q.—Do they pay any annual fee other than their premium?

MR. WILLIAMS: No, only the premium.

Q.—They are persons who simply have practically taken insurance?

DR. SECORD: Yes.

Q.—And have no interest or concern in the Order in any other way?

The questions are answered by Mr. Williams until a change is indicated.

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

A.—With the exception of paying 75 cents a year to the Management Fund of the Order, for the High Court Management.

Q.—They pay 75 cents a year, each of them? A.—Just the same as other members of the Order.

Q.—There is no person that has insurance in your Association but what pays something towards the expenses in some shape or form? A.—Yes, in some shape or form.

Q.—But the amount he pays depends upon the advantages he takes from the membership? A.—Yes.

Q.—Is it your idea, doctor, the Association should branch out, get more insurance from persons who do not want to join the fraternal side of your Organization?

The questions are answered by Dr. Secord until a change is indicated.

A.—My object has always been, and there was an effort made to carry it through, but it was not carried through, that the Sick and Funeral Fund should be known as the Sick Fund and then the Funeral Benefit, which is $100 for each member at death, should be a part of the Beneficiary Fund—I remember the recommendation was that there should be a Sick Fund and a Beneficiary Fund or Insurance Fund, separating the Sick and Funeral and making every member of the Sick and Funeral Fund a member of the Beneficiary Fund insured for $100 at the regular rate; that would be the ideal system in my opinion.

Q.—That would incorporate sickness insurance along with the ordinary insurance? A.—They are now incorporated.

Q.—Not in you Institution? A.—The same Act of Incorporation.

Q.—There is no Government supervision of the Sick and Funeral Branch? A.—No.

Q.—And there is no power in the Order to mix the funds? A.—No, unless the High Court authorizes it.

Q.—Is sickness insurance not looked upon as being a more hazardous undertaking than ordinary insurance, more like accident insurance? A.—I presume you can say yes.

Q.—Are you, or are you not, continually met, or sometimes met, with persons who are simply making a claim and getting money improperly? A.—Undoubtedly.

Q.—And if you have a large business on hand you have difficulty in watching them from one end of Canada to the other or probably all over the Continent? A.—Yes, but the experience of a number of years tells you what to expect, what the gross amount of the sickness is going to be.

Q.—Is the sickness insurance business in your company carried on with the same accuracy and interest in stability of it as your insurance business? A.—I can say yes. I will also say this for the Ancient Order of Foresters, both for the High Court of England and the High Court of Canada—of course in the High Court of England it is a very large institution but the effort has always been towards solvency of the sick branch, and the effort of the High Court of Canada has always been towards solvency of that fund.

Q.—That is not putting it very strongly to say the object has always been towards solvency? A.—Well, with a democratic society it is sometimes pretty hard to get an increase of rates.

Q.—Have you got the sickness Insurance in your Association now in as satisfactory a shape as the ordinary Insurance? A.—I think it is in a fairly satisfactory condition.

MR. LANGMUIR: Q.—Is their supervision an inspection?

—The questions are answered by Mr. Williams until the change is indicated.

A.—The sick and funeral fund is supervised by the Dominion Superintendent when he comes around to examine.

Q.—When he looks at the other he examines——? A.—He goes through this.

Q.—But you do not make returns on it? A.—Yes, he makes returns on it.

Q.—They are separate from this return? A.—Yes, and he mixes them up together at the end of his report.

Q.—If the sick fund became exhausted and there was a loss in that branch would the loss come out of the ordinary Insurance Fund according to your idea, Doctor?

—Questions are answered by Dr. Secord until a change is indicated.

A.—No.

Q.—What would prevent it? A.—The Insurance Act and the Act of Incorporation.

Q.—By reason of the requirements to keep the funds separate? A.—Precisely.

Q.—And there has been no mixing of the funds that you know of? A.—No.

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

Q.—Did you fix surrender values too? A.—No sir, those came after; Mr. Williams fixed them.

Q.—There has been a good deal of revenue from that source, surrender values where policies are surrendered?

—Mr. Williams answers the questions until a change is indicated.

A.—Yes, there is a certain amount, 10 per cent. of the reserve—

Q.—You allow about 90 per cent.? A.—Yes.

Q.—And the society gets 10 per cent.? A.—It goes to the fund, to the benefit of the persistent members.

Q.—There is no surrender value allowed until five years have elapsed? A.—No.

Q.—Why do you make it five years? A.—Because we consider it takes about five years to clear ourselves of the policy.

Q.—How does it do that if you say you only pay $10 out of a premium of $30? A.—That is what we have considered it would be when we made that up at five years, we considered it would take us five years to clear.

Q.—Is there any provision that the insured must apply for the surrender value otherwise it will not be allowed within a certain time? A.—No, there is no provision for that.

Q.—Do you exercise any rule about that? A.—No, I think they should have a good time; if he did not apply for it within twelve months I do not think he should——

Q.—Have you ever refused because application was not made in time? A.—No, all we have asked them to do was to pay the premiums up to the time they want the cash surrender value and we give it to them.

Q.—In 1900 apparently your total expenses were $3,546.87? A.—Yes.

Q.—Made up of agents' expenses and general expenses? A.—Yes.

Q.—And your premium income was $13,778.76? A.—Yes.

Q.—So that your expenses were 20 per cent. of your premium income? A.—Yes.

Q.—1901 they were 20 per cent.? A.—Apparently.

Q.—That is your expenses were $2,999.99, your premium $15,116.78; in 1902 your expenses were $2,058.79, your premiums $15,740.90, or 13 per cent. In 1903 your expenses were $2,837.46, premiums $18,060.91, or 16 per cent. In 1904, you were pretty strenuous, $4,879.92 for expenses, $19,847.83 for premium income, making 25 per cent. 1905 your expenses were $4,435.99, premiums $23,464.44, or 19 per cent.? A.—Yes.

Q.—The 25 per cent. expense in 1904 you say was caused by the agents being paid more liberally? A.—Yes, and in 1903 they were paid more liberally.

Q.—In 1905 you got back to 19 per cent.? A.—Yes.

Q.—As the result of the changes you made? A.—Yes.

Q.—State exactly what those changes were? A.—In the matter of reducing expenses?

Q.—Yes? A.—In doing away with agents to a considerable extent.

Q.—And using your secretaries? A.—Yes, and the secretaries doing the work.

Q.—And these secretaries were paid by the number of applications they sent in? A.—Paid by the number of applications they sent in.

Q.—And what was their remuneration? A.—They got for a thousand dollar policy the $4 bonus and 30 per cent., and 3 per cent. afterwards.

Q.—And any other monies paid to them would come out of the local courts or from some other source of revenue? A.—Yes.

Q.—You still pay, do you, the $3 per member on joining? A.—We do not collect that now.

Q.—When did you do away with that? A.—I think it was in 1905.

Q.—Now what do you get per member? A.—Only the premium.

Q.—Any other payment you make goes to the local courts? A.—Yes.

Q.—Or to some other fund? A.—Yes.

Q.—The Insurance branch just gets the net premium? A.—Yes.

Q.—Then you handed in a profit and loss statement made up the same as the other Companies; had your Company ever made one before? A.—No.

Q.—This is for the year 1905; your loading for the first year's premiums was $356.08? A.—Yes.

Q.—And your expected death losses $614. You had no actual death losses? A.—No.

Q.—In respect of the new business; so that your margin for first year business was $970.08. Your expenses for the first year were $2,426.92? A.—Yes.

Q.—About 250% of the margins? A.—For that new business.

Q.—Then your loading on renewal premiums was $2,733.50, and your expenses $2,009.07, making a profit from

51st day, July 9th, 1906.

Ancient Order of Foresters, (Wm. Williams, Ex'd.)

that item of $724.23, and your losses on the first year would be $1,456.84? A.—Yes, that is the difference.

Q.—That is the loss with respect to that first year's business? A.—Yes.

Q.—Your net expected death losses in 1905 other than in respect of policies issued in that year $8,392.83. Your actual death losses $4,448.25, a profit from that source of $3,944.58? A.—Yes, that is an average age of 35.

Q.—Is that better than you were in 1904 and 1903 and so on with regard to the mortality? A.—I could not tell, I did not make that up.

Q.—Your interest amounted to $2,853.49, and the amount required to make good the reserves was $1,624.97, a gain there of $1,228.52. Your reserves released by surrender and lapses $2,918.18, and your values allowed were $318, a gain of $2,700.18. Your total profits would be $8,597.71, and your total losses $1,456.84, showing a profit for the year of $7,140.87. That seems a lot to make by way of profit in your reserves released by surrender? A.—Lapses and surrender.

Statement of Profit and Loss for the year 1905 filed as exhibit 328.

Q.—There was no special reason for lapse in that year, you had passed all lapsing caused by the changes in the business? A.—You cannot tell the reason of the lapses, but in some cases where policies have been in force for four or five years they go away and never think anything more about sending the premium and we write them if we can find them and tell them——

Q.—Their interest in it is so small they forget about it? A.—They drop it and they care no more about it, we try to keep them on.

Q.—The persons who are insured in your Company would be probably more of a floating population than in ordinary life Companies where they have larger premiums? A.—There is no doubt about that.

Q.—Then I want to put in a copy of your policy loan agreement (Filed as exhibit 329; this is the simplest form of loan agreement I think we have yet seen (Reads), that is the whole agreement you have with the person who makes application for a loan? A.—Yes.

Q.—Do you ever loan more than the cash surrender value? A.—No, we only loan 80 per cent. of the cash value, of the reserve value I should say.

MR. TILLEY: I will put in also a form of the death report which is certainly very simple as compared with some of the others we have seen. (Filed as exhibit 330.)

Q.—I want to put in one of your policies. I notice you allow 60 days of grace for the payment of your premiums? A.—Yes.

Policy filed as exhibit 331.

Q.—Why do you allow more than the Statutory time of 30 days? A.—That is the law, 60 days, the Society agrees to give them 60 days grace.

Q.—And at the end of five full years it becomes non-forfeitable? A.—Yes after three years, is it not?

Q.—I mean to say it does not lapse by the failure to pay premiums? A.—That is right.

Q.—But you give temporary Insurance? A.—Yes.

Q.—And you set out a table? A.—Yes.

Q.—And you allow them to reinstate afterwards? A.—Yes.

Q.—Do you require a new medical examination? A.—Oh I think so.

Q.—I see: "Provided also that during the continuance of said term insurance may at any time without medical examination reinstate this policy"—do you think that is a wise provision? A.—I do not know that it is, but if it is 12 months we require medical examination.

Q.—You do in actual practice? A.—Yes.

Q.—Although probably your policy would not enable you to insist on it. Then if the insured engages in a more hazardous occupation he must pay extra premiums? A.—That is if he becomes a miner or uses a buzz saw anything like that he pays 10 cents a month extra.

Q.—I suppose there is a good deal of change of occupation by your members? A.—Not so far as hazardous occupations are concerned—there is not much trouble about that.

Q.—Supposing the insured engages in one of these hazardous occupations, you have a list? A.—Yes, it is a general list.

Q.—If a person engages in one of these occupations without paying the premium or getting permission, what do you do? A.—That is his own risk.

Q.—If the policy becomes a claim can you dispute it? A.—We have never had an occasion of that kind.

Q.—You have a clause here for arbitration: "If any difference arises with regard to this policy such differences shall be submitted to the arbitration of three persons, one to be

51st day, July 9th, 1906.

Ancient Order of Foresters,
(Wm. Williams, Ex'd.)

appointed by the claimants, one by the Executive Council of the Society, and the third by the two so chosen, and the award of such arbitrators or a majority of them, shall be binding and conclusive upon all parties to this contract, whether beneficiaries or otherwise? A.—In the old times we had a lawsuit on for a thousand dollars.

Q.—Is that the Cerri case? A.—Yes. We knew we were in the right, but it cost us $4,000, and we won the case, and that was put in to have an arbitration case before legal action could be taken.

Q.—Don't you think that would be the better way to have it settled? A.—We had better have given him the thousand dollars.

Q.—Did you put that clause in as a result of that case? A.—Yes, that was my idea.

Q.—Have you ever arbitrated under this section? A.—Never.

Q.—You have had no occasion to use it? A.—No.

MR. KENT: Q.—As I understand the cheapest form of insurance is the non-participating policy? A.—Well, the cheapest form, but it is not sufficient to meet the Government requirements with us.

Q.—But for the insured it will be the cheapest, it costs the least? A.—Yes.

Q.—Supposing your company issued non-participating policies altogether, what would be the result? A.—I don't think we would get as many members; the members look forward to getting some back all the time.

Q.—Don't you think they look forward because you hold out to them as an inducement——? A.—No, I don't think there is anything to that. The members as a rule look forward to getting something back out of their premiums which they pay.

Q.—That is because the agents have got into the habit of showing them that there is something to be got back? A.—Of telling them an untruth, that is all.

Q.—I would not say it was an untruth, because in a great many cases there is something to be got back? A.—There is something to be got back.

Q.—But it is appealing to a man's gambling instincts? A.—No, I cannot say that, because if the members do pay a little more, it all comes back to themselves.

Q.—You have already said the non-participating business does not pay? A.—Not with our rates it would not pay.

Q.—In that case the participating business is carrying a part of the non-participating business? A.—But we have not held over a dozen of the non-participating policies in the whole thing.

Q.—Supposing you had one, is not part of that one carried on by participating policyholders? A.—No, I do not think so, it might to a very very limited extent because the same reserve is provided for.

Q.—When you say it does not pay, how do you mean, that you lose money or you do not make any? A.—You do not make any.

Q.—Then you do not lose any? A.—We cannot say we would lose any.

Q.—If you say there is no gain or loss I do not make my point? A.—I know this much that those that have taken table one, there are very few of them, and that was made up on a 4½ per cent. basis. We had to put a 3½ per cent. basis, the net rate for the Hm. is more than we are receiving for these policyholders, and of course your point is the others must pay a certain portion.

Q.—Just what occurs with every Company? A.—Certainly in that case, but it is not right.

Q.—The non-participating premiums should have been increased all round by every Company? A.—Yes.

Q.—And they have not been increased? A.—Yes.

Q.—The Companies get over the difficulty by not pushing that class of insurance simply for the reason you have given, it does not pay them? A.—No, we do not tell them that. They have their liberty of choice to choose which they like.

Q.—One of the chief things that an agent has to study is what not to tell the intending policyholder? A.—Well.

MR. TILLEY: Q.—As the reuslt of your experience if a company desired to change or was compelled to change from an assessment system to an ordinary reserve system, should it be compelled or should it be required to change all its business, both old and new, to the full reserve system? A.—If you kept the old insurance with the old premiums that they were paying, the deaths that would occur would soon wipe them out.

Q.—But what I am asking you is this, would it have facilitated your

work if the Act under which you were making the change provided what was to be done to the old policyholders? A.—Most decidedly, because then the Act would compel us to.

Q.—That is to say, you think that it would have given you a stronger force in dealing with the situation if the Act had been framed that way? A.—There is no doubt about that.

Q.—Do you think it would have been beneficial from the standpoint of the Order itself? A.—No doubt about it.

Q.—I suppose the general laws of your Society have not changed? A.—1905 is the last.

Q.—Have you one of those here? A.—No, I sent them in.

Q.—I will put in a copy of the general laws of the Order, 1905? A.—Very well.

—Copy of the General Laws of the Ancient Order of Foresters filed as exhibit 332.

MR. GEARY: Q.—What size policy do you issue? A.—Up to $2,000; $250 up to $2,000.

Q.—And the majority of those cases are of what denomination? A.—$1,000.

Q.—What proportion of them are for amounts less than $1,000? A.—I could not really tell you.

Q.—A considerable number of them? A.—No.

Q.—Can you say you are amongst the working class of people? A.—Yes.

Q.—Almost entirely? A.—Yes.

Q.—And with the change to the full reserve basis you have had to change your method of explanation of policies of insurance to these people, you have had to change your way of explaining insurance to them since you went on a full reserve basis? A.—Yes, we had to do that, to show them we were on a reserve basis, a Government standard.

Q.—Tell me if you find these people now are fully alive to the difference of the two classes of insurance. A.—I have not the least doubt about it.

Q.—You think they have got on? A.—Yes, there is not the least doubt about it that the fraternal insurance on our basis to-day will be the insurance of the future—that is my idea.

Q.—Your experience would be very valuable in that way; but would not the people begin to understand insurance as on scientific principles? A.—On the present basis.

Q.—Is it explained by your agents to these men that they are to get profits in the event of your business being profitable—do you give them an estimate? A.—Yes, I give a rough estimate very much lower than the Companies' estimates.

Q.—How did you put that forth? A.—I just calculated up as well as I could but I am not an actuary.

Q.—Did you circularize your agents or subordinate officers, did you tell them by circular what they might hold out to these men? A.—Yes, a copy of the advertising matter is here.

Q.—But is there any mention of the non-participating class of policy? A.—Yes.

Q.—You gave them each an equal setting out in the circular? A.—Yes, they can take which they like.

Q.—You do not press one more than the other? A.—No; you will notice in the General Law there is only the non-participating that is published, and if you would sooner have that he can take it in preference to the other.

Q.—Do you put the same terms on each policy? A.—We put the same terms on each policy.

Q.—You do not differentiate at all? A.—No.

Q.—And you find that the people or your agents at all events get the participating business? A.—Yes, before the other.

Q.—You were speaking of your medical examination being less satisfactory at the fee you charged than it would be if doubled? A.—Yes.

Q.—Do you mean by that, that your medical examination is not as thorough as you would like to see it? A.—At present it is, but when we were paying $1, a physician cannot as thoroughly examine a person as for $2.00.

Q.—He might as well not examine him; but at all events you are getting now satisfactory examinations? A.—We are getting first-class examinations; and if not it is referred to our High Court Examiner and he sees everything is correct.

MR. TILLEY: That is all I have to ask Mr. Williams at present.

MR. KENT: I think Mr. Williams said in the course of his examination that he considered the assessment life insurance as faulty and weak, and that is the reason they changed.

MR. TILLEY: Yes, I think Mr. Williams committed himself to that as his view, although he said other members of the Order differed with him; so that I suppose there are people who take a contrary view in your Order? A.—Yes.

51st day, July 9th, 1906.

MR. TILLEY: The next Company I propose to investigate is the Central Life, and I have arranged to take that Company up to-morrow morning at 10 o'clock if your Honors would sit at that hour, because they desire to try to get their books again to-morrow. They suggest coming here to be examined, and would like to be through in a day.

The Commission accordingly adjourned at 4.15 p.m., Monday, July 9th, to Tuesday, July 10th at 10 o'clock a.m.

FIFTY-SECOND DAY.

MORNING SESSION.

Toronto Tuesday, July 10th, 1906.

MR. TILLEY: I propose to take up the Central Life this morning and I will call Mr. Thomas Crawford.

CENTRAL LIFE INSURANCE COMPANY OF CANADA.

Mr. R. L. McKinnon appeared for the Company.

THOMAS CRAWFORD, M.P.P., sworn, examined by

MR. TILLEY: Q.—You were the President of the Central Life Company at the time of its organization? A.—I was the first President, yes.

Q.—And you continued to be President of it up to within a few months ago? A.—Yes.

Q.—You were President up to the end of the year 1905? A.—Yes.

Q.—Then you sold your stock in the Company? A.—Yes.

Q.—And ceased to be a director or an officer of it? A.—Yes, sir.

Q.—So that at the present time do you hold any stock in it? A.—No.

Q.—Did you bring the company into existence or were you brought in as President after the idea of forming the company had been conceived by some person else? A.—After the idea was formed and the company was practically brought into existence.

Q.—By whom was it practically brought into existence? A.—Mr. J. M. Spence.

Q.—He afterwards became the Manager of the Company? A.—Yes.

Q.—And continued as Manager all the time you were President except for a short time I think when he had leave of absence? A.—Yes.

Q.—Then could you tell me how you came to be associated with it? A.—Mr. Spence came to see me; my recollection of it is that Mr. Spence with three gentlemen who afterwards became associated with the institution and directors, and who were friends of Mr. Spence in the place where he came from, the County of Wellington—they had intended as I understood it to form a company and conduct the business, make the Head Office, Wellington, some part of it, perhaps where they are now, in Guelph, and afterwards they determined that it might be better to come to Toronto and get some one at least associated with them here, and so Mr. Spence came and interviewed myself, and then afterwards a solicitor was interviewed who became associated with the concern and attended to the legal work, Mr. St. John, now the Hon. Mr. St. John.

Q.—It was brought about to some extent at any rate by the change of plan of the company to some extent in coming from the County of Wellington down to the City of Toronto possibly, and desiring to get some well-known Toronto persons connected with the company? A.—I suppose, yes.

Q.—And you were interviewed in that connection by Mr. Spence and the other persons who afterwards became directors, I suppose? A.—Yes, well, we had a conference, we met together in Fergus; I went with Mr. Spence to see these gentlemen in Fergus, one of whom I was fairly well acquainted with, Dr. Groves, who became the Medical Referee.

Q.—And a director of the company? A.—Yes.

Q.—You became aware then of the change in plan of the promoters of the company in coming from the County of Wellington down to Toronto? A.—The matter was not discussed particularly then so far as my recollection is concerned, but I think perhaps Mr. Spence in conversation with me gave me to understand that more than as to any discussion in connection with the meeting of the others interested or about to be interested.

Q.—Then did Mr. St. John become interested in the company as the result of a discussion with you? A.—Well, yes. Mr. Spence and I talked as to who we might get to act as solicitor for the company here, and

52nd day, July 10, 1906.

Central Life Ins. Co.
(Thos. Crawford, Ex'd.)

I could not say whether Mr. Spence named Mr. St. John or whether I named Mr. St. John, or perhaps others; however, his name came down to Mr. St. John becoming the solicitor for the company.

Q.—Was it understood at that time that he would become a director as well? A.—I do not know whether there was any understanding; I have no recollection that there was any fixed understanding. However, afterwards he became a director.

Q.—Would you tell me whether you had had any previous experience in life insurance business? A.—As to myself, you mean?

Q.—Yes? A.—No, I had no previous experience in life insurance business.

Q.—Were you aware of the conditions that existed at that time when you became president of this company? A.—Yes, I may say so far as I know the conditions were that two of these gentlemen acted as trustees and received the money as it was forwarded by the subscribers for stock and deposited it in the bank.

Q.—I was meaning general insurance conditions, were you aware of the difficulty that would meet a young company starting out to develop an insurance business? A.—I would not like to say I gave that very much consideration, neither was I an expert on that particular line.

Q.—Your knowledge became broader in that respect afterwards I presume? A.—Undoubtedly, I came to know a little more of life insurance work.

Q.—With the experience that you gained subsequently and the knowledge you acquired in connection with this company would you say whether at that time there was any crying need of a new life insurance company in Canada, or was the market pretty well supplied? A.—I think there was room, I think there was room sufficient and enough business to be secured by a well-ordered, well-directed and well-managed concern.

Q.—You still think that? A.—I do.

Q.—There have been a great many new companies started in recent years, some before and some after this? A.—Yes.

Q.—Probably more in the last ten years than there were in the preceding ten? A.—Perhaps so.

Q.—Then you say that prior to your connection with the company moneys paid in by subscribers for stock were paid to what two directors or Provisional Directors? A.—Dr. Groves and—

Q.—Dr. Bissel? A.—Mr. Bissel, he is a business man in Elora I think, not a medical man.

Q.—And these two gentlemen kept the money as trustees for the Central Life? A.—They paid it in to the Central Life in the bank, which could not be drawn then; it was perfectly well guarded in that respect.

Q.—And the money was used I suppose in the early stages for getting out prospectuses and getting subscriptions for stock? A.—There was certain expenditure, I could not say just exactly, speaking from memmory the expenses of organization which had to be provided for, my recollection of it is that we were very economical and congratulated ourselves, perhaps congratulated Mr. Spence in the securing of the stock at the least possible expenditure.

Q.—You cannot say I suppose from recollection what that expenditure amounted to? A.—I could not say.

Q.—Mr. Spence will no doubt be able to give us that from the books? A.—Yes.

Q.—Then the balance I suppose that was with the trustees would be paid over to the company as soon as it was incorporated? A.—The account was opened in the name of the company.

Q.—I think probably your recollection is a little in error there; I think at a certain time there was a balance which had been standing in the name of the trustees that was then paid in to the credit of the bank; that is my recollection; however the company got the full subscriptions that the shareholders paid less the organization expenses? A.—Yes.

Q.—Did any expense come out of that fund to your knowledge for any of the Provisional Directors? A.—Not a cent to my knowledge.

Q.—No payments were made for their services in organizing the company? A.—Not to my knowledge.

Q.—Does that apply to Mr. Spence as well as the others so far as your knowledge goes? A.—So far as my knowledge goes, so far as my recollection is, he never received for the work done in connection with the organization anything other than the expenses supposed to be in connection with the sale of stock.

Q.—Commission paid to agents and

so on? A.—Yes, that is my recollection.

Q.—Was it decided before you became a party to the negotiations as to how the company would be incorporated, whether by letters patent or by a private Act? A.—I do not think the matter of private Act was ever discussed.

Q.—There was never any discussion as to the benefit or the detriment of being under letters patent rather han a private Act of Incorporation? A.—No, I think a private Act of Incorporation was never discussed.

Q.—It was always assumed it would be letters patent? A.—Yes.

Mr. Tilley files as exhibit 133 a copy of the letters patent, (reads).

Q.—Was there any special discussion about any of the clauses in this charter, do you remember? A.—Not that I have any recollection of, doubtless the different clauses may have been discussed but it was largely a matter of the solicitor and perhaps the promoter, Mr. Spence, dealing with Dr. Hunter as the Superintendent of Insurance.

Q.—And working out the provisions? A.—Yes.

Q.—There was no special discussion by the Board of the provisions, do you remember? A.—I do not remember just now.

Q.—Just to make the record complete in that regard, I think the name of the company was subsequently changed from the Central Life Insurance Company to the Central Life Insurance Company of Canada? A.—Yes.

Q.—By an Order in Council? A.—Yes.

Q.—The reason for that being what? A.—We thought it was a little broader.

Q.—Was there not some confusion caused with some American Company having the same name? A.—Not to my recollection.

Q.—There seems to be some mention of that? A.—We thought that the Central Life Insurance Company of Canada would give us a little more breadth, and apply for a Dominion license we thought that it was in the interest of the company. It was suggested by the Manager and acted upon by the Board, believing that it would perhaps strengthen us a little.

Q.—I see the copy of the minutes of the Board meeting held on August 26, 1904, shows that the petition contained this provision—and I attach a copy of that to the letters patent, also a copy of the Order in Council —"First: That your petitioners were duly incorporated" etc. (Reads down to the words "Central Life")? A.—Perhaps that was given as a reason.

Q.—But a change was made apparently in September, 1904? A.—Yes.

Q.—Before the letters patent were issued I think you issued a prospectus of the company, did you not? A.—Mr. Spence would remember more about that.

Q.—I am not going to bother you much about that, but I just want to put it in in the order; there is no doubt that is the prospectus? A.—I suppose.

Prospectus filed as Exhibit 334.

Q.—Did you undertsand what was meant by the possibility of impairment of capital in an insurance company at that time? A.—Perhaps I did at that time, but just as to how fresh it is in my memory now—

Q.—Probably not quite so well as you did afterwards? A.—Probably not quite so well as I did afterwards.

Q.—Would you now say that it was a proper assumption that \$2.50 on each share would be sufficient to avoid any possible impairment of capital, or do you think it would be still possible— A.—In the matter of the sale of stock I think that \$2.50 a share should be sufficient.

Q.—Did it turn out to be sufficient with the Central Life? A.—Well, so far as the sale of stock is concerned perhaps it did.

Q.—I do not quite follow what you mean by the sale of stock; the idea of this paragraph in the circular is that by paying \$2.50 to be carried to surplus and not credited on the capital stock that that will be sufficient to provide a surplus and avoid any possible impairment of capital stock? A.—Just as it occurs to me now, and I am only speaking from memory, I have not given this thing any consideration at all lately—I got my subpoena yesterday, I did not know I was going to be here—but it occurs to me that has reference to a further issue of stock and the sale of that stock and that this \$2.50 a share might be called for so that there would be sufficient to pay the expenses of the sale of stock.

Q.—That was your idea of it? A.—That occurs to me now. I am not giving it as being absolutely a correct answer to the question, but it occurs to me that that was what was

52nd day, July 10, 1906.

Central Life Ins. Co.
(Thos. Crawford, Ex'd.)

in our mind at that time; Mr. Spence would be more conversant.

Q.—In carrying on insurance business there is an impairment of capital in the early years unless there is some surplus found to provide for it by reason of the expenses being so high and the reserve that the Government requires to be set apart? A.—Just so.

Q.—That is a thing that causes impairment of capital? A.—Yes.

Q.—Was it not the intention that persons should understand, and is it not the reasonable inference from this that that $2.50 per share was to take care of that phase of the company's business and prevent any impairment of capital as the result of putting up the reserve? A.—Perhaps it was.

Q.—There could hardly be any other meaning to it to a person reading this, I would think? A.—My recollection is that at the time that prospectus was issued there was in our minds and that of the Manager who made recommendations and largely responsible for the prospectus — I think in consultation with the solicitor that what was in our minds was that in any further issue of the stock there would be this $2.50 a share asked in connection with it to be applied to the reserve, but our stock had been up to that time sold at par; that is my recollection, and that this was what was in he minds of the Manager and the Board at that time when this prospectus was issued. I may not be strictly correct, because I cannot state from memory but that occurs to me as what was in our minds at that time. The Manager will be clear on that.

Q.—The $2.50 at any rate was not sufficient to prevent impairment in the conduct of the company's business? A.—Perhaps it would if all their payments were met.

Q.—What do you mean by other payments? A.—Premiums and so forth, so that the expenses would not exceed, or in other words that commissions might not be paid on business that there were no returns from.

Q.—What are you referring to now? A.—I am referring to agents who secure business and they are paid commissions on business and the insured gives a note, and these notes are returned as cash and they are never realized on, and because of that there must be a going behind.

Q.—There was impairment of capital in the Central; was there not? A.—Yes.

Q.—In 1902 there was impairment of at least $5,435.62? A.—Yes.

Q.—Assuming this to be correct, I will get Mr. Spence to verify it later; in 1902 $15,004.02; in 1904 $20,177.25; 1905 $36,194.11—the impairment steadily increasing. Taking the years during which you were President, that is up to the end of 1905, and that would include all these figures—but up to the end of 1904 all these notes that the insured had handed to the company were still being carried in the account and treated as cash? A.—Not all.

Q.—I think so? A.—Were they?

Q.—Up to the end of 1904, they were—is not that right Mr. Spence?

MR. SPENCE: Yes.

MR. TILLEY: Up to the end of 1904 there is nothing to be accounted for by the notes, because you treated them as cash in ascertaining this impairment—that would do away with that argument? A.—My recollection was they were discounted to a certain extent, however—

Q.—Whether thev were discounted or not the company in its balance sheet each year was taking credit for the full amount of these notes, there was nothing ever written off to profit and loss? A.—I understood a little different; that is my recollection of it.

Q.—Apparently the $2.50 was not sufficient at any rate in the case of the Central to cover that impairment? A.—It seemed the impairment came.

Q.—If you were commencing a company now would you leave out that statement from the prospectus, that $2.50 per share would prevent impairment, or would you carry on the business of the company differently, and not have the impairment? A.—My knowledge of life insurance now is that $2.50 a share would be sufficient if the business of the company were carried on both economically and wisely.

Q.—In the carrying on of the business of the Central has it been carried on economically and wisely? A.—I would not say it has been otherwise, other than this, that the Manager was in very poor health for the last two years, and it had a very serious effect on the business; there is no question about that.

Q.—I see he was given leave of absence? A.—Yes, that was two years nearly; he had been suffering, suffering very much, and absence from the office weeks at a time through illness, and it had a very serious effect on

52nd day, July 10, 1906.

Central Life Ins. Co.
(Thos. Crawford, Ex'd.)

the business, there is no doubt about that.

Q.—Do you think that that accounts to some extent for the impairment of capital in the Central? A.—Largely.

Q.—Just referring to that matter I notice the resolution gives him leave of absence provided that any expense paid to get assistance while he is away should be deducted from his salary? A.—Yes.

Q.—I think your last act as President was to see that that was carried out in that way? A.—Yes, we did not add to the staff but we worked overtime.

Q.—Some of the employees worked overtime? A.—Yes.

Q.—And I say just as you were departing you had it noted that this expense should be taken from his salary pursuant to the original resolution? A.—Yes.

Q.—Did you know that that was rescinded after you left? A.—No.

Q.—You were not aware of that? A.—No, never heard of that.

Q.—Your parting resolution did not seem to avail much, because the directors turned it around afterwards and ordered it should not be charged to Mr. Spence? A.—I know nothing of it, and they are responsible.

Q.—It was not a very large amount, but we will take that up with Mr. Spence as the proper person to deal with that, as he was there at the time and it was changed after you left. I do not want to go into details of matters that Mr. Spence should know more than you about, he was the manager throughout? A.—Yes.

Q.—As well as the original promoter? A.—Yes.

Q.—And I suppose to a great extent you and the other directors relied on him to conduct the affairs of the company? A.—Yes.

Q.—The original number of directors in the company was seven? A.—That is my recollection.

Q.—And the persons who were named in the letters patent were the directors? A.—Yes.

Q.—Subsequently the number was reduced to six? A.—One of the directors, Major Craig, resigned and we did not fill his place.

Q.—So that you reduced the number of the directors to six? A.—Yes.

Q.—Did he resign or was he got rid of from the Board? A.—He resigned, his reasons being, as far as my recollection is concerned, that his time was fully taken up and he did not feel that he was free to come to Toronto to attend meetings.

Q.—You think then he desired to be relieved of the position of director and the Board was reduced? A.—That is my recollection.

Q.—The Board continued six till Mr. St. John dropped out of the Board and then it was five? A.—Yes.

Q.—Was there any division between the directors at about that time? A.—Nothing that I am aware of.

Q.—I notice that up to the meeting when Mr. St. John ceased to be a director and the Board was reduced to five that the President had been casting a single vote for all directors? A.—Yes.

Q.—And at this meeting there was a motion to change the number of directors to seven, another motion to keep it at six and another amendment to make it five? A.—Yes.

Q.—And those were all voted on? A.—Yes.

Q.—And then the directors were voted on? A.—Yes.

Q.—Was there any disagreement between the directors at that time? A.—Not that I am aware of; if there were any friction at all it would be between the Manager and the solicitor.

Q.—And you do not know anything about that? A.—I cannot say anything particular about that.

Q.—Was there any friction between you and the Manager at that time? A.—No, no friction, but after the directors were elected I may have said to the Manager that perhaps we did not do the wise thing in leaving off Mr. St. John, but we had no particular friction or quarrel or anything of that kind.

Q.—The way the minutes read would rather lead one to think that there was a disturbance in what was previously a very friendly and amicable family? A.—No, there was no quarrel; my recollection of it is that personally I thought we made a mistake in leaving Mr. St. John off.

Q.—You did not leave him off? A.—No.

Q.—You voted for him? A.—Yes.

Q.—And the intimation you would give to Mr. Spence would be, I think perhaps you have been making a mistake, is not that about the nature of the intimation, you say "We made a mistake," you did not make any mistake because you tried to keep him on? A.—I would be speaking generally.

52nd day, July 10, 1906.

Q.—Was it any dispute as to the conduct of the company's affairs? A.—Well, not so far as the Board—my recollection is not so far as the Board was concerned. Whatever contention there was for friction might be in connection with the business or the manner of conducting the business would be between the solicitor and Mr. Spence—

Q.—You were the President at the time; if there was just a mere personal dispute between Mr. Spence and Mr. St. John I do not know that we are much concerned with it, but if it is something that affects the conduct of the company's business we want to know all about it? A.—I do not know anything affecting the business of the company.

Q.—Did it arise out of the conduct of the business of the company? A.—I could not answer that question for this reason, that any friction there was between Mr. St. John as solicitor and Mr. Spence as Manager, and it might be about the conducting of the business; if it was then these two gentlemen will know it, I do not.

Q.—It was no dispute to which you were a party on one side? A.—No.

Q.—It was no dispute as between Mr. Spence and Mr. St. John and yourself? A.—No.

Q.—But in the dispute, whatever it was, you were with Mr. St. John? A.—Yes. I felt that it would be better for us to keep him in the company.

Q.—But your view was over-ridden by Mr. Spence who controlled the proxies? A.—Apparently.

Q.—Now what means was taken to get proxies in the company? A.—The Manager sent out notices and the names to be filled in—I suppose they had a form of proxy.

Q.—Yes, the form is a very ordinary form, there is nothing I need to draw attention to at all—were they sent out with the notice of the annual meeting? A.—Yes.

Q.—Was the name of any person or officer filled in the proxy as it was sent out? A.—Not to my knowledge.

Q.—(To Mr. Spence)—Was there any name in the proxy?

MR. SPENCE: The proxy that was sent out was blank; the last two or three years the names of the directors were on the bottom of the proxy and they could use any one of them or anybody else they wished, but there was no name filled in the printed form.

MR. TILLEY: Mr. Spence seems to have got a lot of proxies, he always had enough proxies to vote down all the rest, almost from the start? A.—Perhaps not quite so much as that; but I suppose that could be accounted for in this way: Mr. Spence was better known to the shareholders

Q.—Was there any method adopted that you know of by Mr. Spence to get any of these proxies in his own name? A.—Not anything unusual or particular so far as I know.

Q.—Do you know whether he got the agents to see that his name was filled in? A.—Not to my knowledge.

Q.—Was that ever suggested to you? A.—Not so far as I have any knowledge.

Q.—Was there any discussion at all between you and Mr. Spence as to how he happened to get so many proxies? A.—Not to my recollection.

Q.—Was there any effort to get proxies prior to the meeting when Mr. St. John was left off the Board? A.—If that was done it was unknown to me.

Q.—You made no effort? A.—No.

Q.—Did you know that there would be a vote taken with respect to directors at that meeting? A.—I did not.

Q.—When did you first learn that? A.—When the meeting was in session.

Q.—That vote was taken at the meeting that was held on January 24th, 1905, the annual meeting of the company? A.—Yes.

Q.—That is what the minutes show? A.—Well.

Q.—At that meeting apparently you held 40 shares, that you owned in person? A.—No, was it 25?

Q.—Apparently you had 40 here, were you holding any in trust? A.—Yes, I think I was.

Q.—Or were the shares of any defaulting shareholder transferred to you? A.—Mr. Spence would remember; there was Dr. Graham's 20 shares

Q.—Had his shares been forfeited and transferred to you or had they been sold to you? A.—They were transferred to me in trust.

Q.—Why? A.—That would be the question that Dr. Graham would have to answer.

Q.—In trust for whom? A.—Dr. Graham.

Q.—Dr. Graham himself? A.—Yes.

Q.—What did you do with the shares ultimately? A.—Ultimately transferred them to him.

Q.—Then I should not ask you that question; there were a great many shares held that came into Mr. Spence

52nd day, July 10, 1906.

Central Life Ins. Co.
(Thos. Crawford, Ex'd.)

in conection with shareholders that defaulted? A.—I had nothing to do with anything of that kind.

Q.—Then by proxy you had 209 shares, making 249 votes at the meeting. T. E. Bissel had 20 shares in person and 51 shares by proxy, making 71 shares; James Dowe, M.B., had 20 shares in person, 155 by proxy, in all. Dr. Groves had 40 shares in person, and 108 by proxy, making 148. J. M. Spence had 146 in person and 1,277 by proxy, making in all 1,423 votes. J. W. St. John had 20 shares in person, 155 by proxy, making 175 in all. E. Daniel, 10 in person, 5 by proxy, making 15. Then on the margin on this page is a formal certificate signed by E. Turner—do you know who E. Turner was—was he one of the clerks in the office? A.—I do not know of any clerk who was in the office of that name.

Q.—It reads in this way: "I have compared the proxies received in favor of the following shareholders with the stock ledger and certify that the number credited and set out opposite to each person, namely, Thomas Crawford, T. E. Bissel, James Dowe, A. Groves, J. M. Spence, J. W. St. John and E. Daniel are correct. Dated 23rd January, 1905"—did that come to the meeting in that way; do you remember that page 113 of the minute book showing the summary of the stockholding? A.—My recollection of it is that that was before us. We usually had things in proper form and I have no doubt that would be before us in that form.

Q.—At the previous year the proxies stood in this way: Thomas Crawford 177, T. E. Bissel, 40, James Dowe 46; J. W. St. John 36; Dr. Groves 43; Thomas Portch 10; J. M. Spence 769; so that Mr Spence had received over 500 more proxies, and Mr. St. John had received about 120 more proxies, does that not bring to your recollection an attempt to get proxies for that meeting for 1905? A.—So far as my recollection is concerned I have no knowledge, I have no recollection of any particular effort being made with any purpose in view of making any change on the Board or for any other reason.

Q.—I notice that in the by-laws of the company a certain notice must be given; it is by-law number 4 subsection 2: "The number of directors," etc. (reads). Do you know whether a notice was given for this meeting in January, 1905? A.—I have no recollection.

Q.—That a change in the number of directors would be sought? A.—I have no recollection of it, I believe I stated that the first intimation I had of this was when we were in session. Speaking from memory, and memory only, I do not want to be considered as one that will say I am absolutely correct, it might be that notice was given but I have no recollection of it.

Q.—At page 122 the minutes read in this way: "A communication was then read by the Manager from Henry H. Unsworth asking that the Board of Directors be reduced to five?" A. —I never heard the name before to my recollection.

Q.—You cannot place that letter coming from Mr. Unsworth as being instigated by any particular director? A.—No.

Q.—Then it goes on to provide that the matter should be taken up, and it was moved by Mr. Daniel, and seconded by Rev. A. C. Wilson that the number of directors be five. Moved in amendment by Dr. Groves, seconded by Dr. McKibbon, that the number of directors be six. Moved in amendment by Dr. Dowe, seconded by W. N. Andrews that the number of directors to constitute the Board be raised to seven. Then it was moved by Mr. Spence and seconded by Dr. Dowe that the better way would be to have the shareholders vote by ballot," etc. (Reads resolution). That was carried. Scrutineers were appointed and the vote came in 1,777 for five directors, 308 for six directors, and 137 for seven directors. Then you declared that the five directors must constitute the Board and the ballot was taken for the directors. I see you got 1,945 votes, Mr. Bissel 2,184 votes, Mr. Dowe got 2,083 votes, and Dr. Groves 2,039; J. M. Spence 2,179 and J. W. St. John 489, and John McGowan, 25, and James Sparling 5, and you declared Messrs Crawford, Bissel, Dowe, Groves and Spence the Directors. You were re-appointed then the President of the Company? A.—Yes.

Q.—And you continued as President until the end of the year 1905? A.—Yes.

Q.—I notice there was a meeting of directors on January 15th, 1906? A.—Yes.

Q.—And on that date you were present and were in the Chair, but during the meeting this note appears: "The President, Mr. Crawford, tendered his resignation as a member of

the Board of Directors, and on motion of J. M. Spence, seconded by Dr. Dowe, the same was accepted"—that was just before the annual meeting? A.—I was not present.

Q—Did you leave before that? A.—Yes, I was not present when that motion was carried.

Q.—You were at that meeting? A.—Yes, I was at the meeting.

Q.—Did you leave after resigning? A.—Yes.

Q.—Did you resign having made up your mind to do it sometime before, or was it as the result of some discussion that took place between you and Mr. Spence that day? A.—Well, perhaps a little of both.

Q.—Let us know the discussion that took place that day? A.—Of course I had been giving a good deal of time to the business during the three months of Mr. Spence's absence, and Mr. Spence then was not in an improved condition of health; it seemed to me, as it did to some of the others, that his health was not sufficiently good that he should continue as the active manager; and I thought in the condition I found the business in that in the interest of the company a change would be a good thing so far as the Manager was concerned.

Q.—A change in the Manager? A.—Yes, and I expressed myself so, and I said I would like very much if I were associated with any institution to know that it was growing, if there was not a possibility of making it grow I would then know the reason why or give it up; that is in plain words. I said at the Board that if a change was made I would remain and give my time and my best efforts towards the work of the company, and if not I gave the other alternative that I was willing to hand in my resignation, they pay me for my stock, and I would retire.

Q.—Then there was an ultimatum delivered at that meeting before you? A.—That was the ultimatum.

Q.—That Mr. Spence should get out? A.—No, not exactly.

Q.—As Manager? A.—I did not intend in my own mind that Mr Spence should get out; he was in a weak state of health, and I felt a more active, stronger, energetic man must be at the head of the affairs of the company in order to make a success of it; that was my view.

Q.—Did you intend to take the management yourself? A.—No.

Q.—What did you propose to do? A.—I did not make any particular proposition.

Q.—What was in your mind? A.—What was in my mind was to endeavour to secure a capable man as a Manager for the company. I do not pretend to be an insurance man, I did not want the work.

Q.—Were you going to take an active working interest in the company's business? A.—No, I had too much work to do then, very glad to get out and get relief.

Q.—It was not in your mind that you should take any more active interest? A.—No, not so much as I had.

Q.—You had been taking considerable work during Mr. Spence's absence? A.—Three months' absence, yes.

Q.—Was there any discussion as to remuneration for that work? A.—No, not to my recollection.

Q.—Was that question ever raised by you? A.—No, not so far as I was concerned.

Q.—The idea at that time was that Mr. Spence, owing to his condition of health, should give up the active management? A.—That was in my mind.

Q.—Was it solely on account of his condition of health that you thought that he should give up the management? A.—Well, yes, perhaps it was all on account of his condition of health. I had from my experience with Mr. Spence got in my mind and convinced that if his health was good he was a capable insurance man.

Q.—So that you remained of the opinion that you must have formed when you went into the company I suppose, that you had a capable Manager? A.—I never thought anything to the contrary until his health failed.

Q.—And do not yet? A.—Well, I suppose I am not called upon to express an opinion now inasmuch as I am not interested at all.

Q.—You are interested in this way, I would like to compare your views of the situation with your speeches at the annual meeting, for instance? A.—Yes; in answering that question you would have to give me some assurance that Mr. Spence's health was equal to what it was in the first years of management.

Q.—Is that the only matter that was in your mind? A.—If that was so I think he is a capable man.

Q.—Based entirely on the question of his health; the company made all

52nd day, July 10, 1906.

Central Life Ins. Co.
(Thos. Crawford, Ex'd.)

the progress you could reasonably expect of it, do you think, during the time you were President? A.—I would not say that.

Q.—Did you criticize that feature with Mr. Spence? A.—Occasionally, yes.

Q.—Did he agree with you or disagree? A.—He never put me off with a sore heart.

Q.—He rather met your view? A.—He was rather disposed to be optimistic as to the future.

Q.—Had you got pessimistic? A.—No, I cannot say that; I am not given to that sort of thing, but I was anxious to see a better condition of things, that is all.

Q.—Were you willing to make the same speech in 1906 if you had remained, as in 1905 when you were there? A.—No.

Q.—What had changed your view in the meantime? A.—The condition of Mr. Spence's health.

Q.—And you thought his health had not recovered? A.—I think it was very clear.

Q.—Did you know or feel if you did not resign that you would be left off the Board, did you anticipate that? A.—No.

Q.—Did you in any way discuss the voting power that Mr. Spence had and criticize that aspect of his position as a Manager? A.—No.

Q.—That was never discussed? A.—No.

Q.—In all your discussion with him were you cognizant of the fact that he was in control? A.—It never occurred to my mind.

Q.—Of the appointment of directors? A.—It never occurred to my mind.

Q.—You had seen it demonstrated the year before with Mr. St. John? A.—Yes.

Q.—And that was all due of course to Mr. Spence's voting? A.—Yes, largely.

Q.—He must have voted to have five directors, and he must have voted for the five, and his vote would carry? A.—Yes, that is true.

Q.—Do you think that is a proper normal position for matters in an insurance company, that the Manager should have it in his power to put all his Board of Directors off at any year and re-elect new ones? A.—I do not think it is a healthy condition.

Q.—If that was not a healthy condition did you ever try to rectify it in your company? A.—No, that feature, to my memory, never was discussed. I don't think I ever discussed it either privately or publicly with Mr. Spence or the members of the Board. I have no recollection of it.

Q.—I see that at the end of 1905, by way of preparation for the annual meeting in January, 1906, that Mr. Spence again had a large voting power. Did you know what proxies he had received? A.—I did not.

Q.—Were the proxies sent in for each annual meeting separately, or was the same proxy used for successive meetings? A.—I think the proxies were got for 1905 and 1906 if my memory serves me right. I stand to be corrected.

Q.—So that probably it would be for two years? A.—Yes.

Q.—When you said Mr. Spence would have to give up the management and a good healthy Manager be appointed or you would resign, you made it a condition, I suppose, that your stock should be taken off your hands? A.—Well, scarcely.

Q.—You assumed that that would be done? A.—Yes, I think, perhaps, when I made the statement that I was willing to resign my position, it is possible I think I did say, that if any of the members of the Board would relieve me of my stock I would retire from the company.

Q.—At what rate were you relieved of your stock? A.—At 15 per cent., paid up. What I paid.

Q.—You got back your money? A.—Yes.

Q.—And who took it? A.—Mr. Spence. Mr. Spence gave me a cheque for it.

Q.—To make the record of proxies complete I will read the remainder of the list. Philip T. Kelly, 100 votes in person and 190 by proxy, making 290. T. E. Bissell, 20 in person, 49 by proxy, making 69. James Dowe, 20 in person, 102 by proxy, making 122. A. Groves, M.D., 40 in person and 109 by proxy, 149. J. M. Spence, 234 in person and 1,505, making 1,739 votes. Do you know what proxies you had to turn over at the time you left the meeting? A.—I do not.

Q.—I suppose you had not increased them much in 1905 or had you? A.—I couldn't say. I paid no attention to the proxy features.

Q.—Did you endeavour to get any proxies in 1905? A.—No, never made any effort.

Q.—So that your voting power would be about the same strength as it was

the year before? A.—As far as any effort was concerned, it would be.

Q.—When you had 249 votes. Then your stock was taken over and from that time you have ceased to be a shareholder in the company? A.—Yes.

Q.—And what has happened since about the company I suppose you don't know? A.—I have no knowledge.

Q.—I notice that a resolution was passed, and I think you moved it, when the company was organized, that the first policies should be issued to the directors in the order of their appointment if application be made and approved? A.—Yes.

Q.—Was that carried out? A.—Largely, I think. I had No. 1.

Q.—For how much? A.—$2,000.

Q.—Straight life? A.—Twenty-year endowment.

Q.—Did you pay the full premium rate for it? A.—Yes.

Q.—No commission? A.—Yes, the commission was allowed off.

Q.—At what rate? A.—I couldn't say from memory. Mr. Spence would be able to answer that correctly.

Q.—Was a rule laid down for all the directors at that time? A.—I couldn't answer that question.

Q.—Well, Mr. Spence, was a rule laid down?

MR. SPENCE: Yes, they all got the usual commission, just the same as an agent would get. It was about 40 per cent. on a 15-year endowment.

MR. CRAWFORD: Was it 15? Then I will make that correction.

Q.—Was that the only commission allowed? I mean to say, was that the only concession, rebate or commission or whatever you choose to call it that any director got?

MR. SPENCE: Yes, that is all. Each director that took insurance got that commission.

Q.—That is as much as any director got?

MR. SPENCE: Yes.

Q.—Do you remember the securities that the company put up with the Ontario Government, Mr. Crawford? A.—I have no particular recollection.

Q.—Do you remember that it was attempted to put up Provincial and Building and Loan Association debentures? A.—Perhaps it was, I have no recollection particularly of it.

Q.—Were you a director of that company? A.—Yes.

Q.—And the President of it? A.—Yes.

Q.—And Mr. St. John, was he a director of it? A.—No.

Q.—Was he the solicitor of it? A.—He was the solicitor.

Q.—Do you remember that debentures of that company were refused? A.—I have no recollection, but it is very possible it may be so. I don't know.

Q.—Why do you say it is possible it may be so? A.—Well, inasmuch as I know something of Dr. Hunter's views on Building and Loan debentures.

Q.—What is the objection that is raised to them? A.—Well, Dr. Hunter regards Building and Loan debentures as not the class of security they wish to have.

Q.—Why not? A.—I cannot tell you that. I do not know.

Q.—The Provincial Building and Loan Association had terminating shares, had it not? A.—Some, yes.

Q.—A great many, had it not? A.—Yes, a good many. A great many.

Q.—Almost entirely? A.—Oh, they had some permanent stock.

Q.—Very little by comparison with the terminating. How did it compare? I couldn't answer you. It is a good while ago, I couldn't say just what the percentage was, but we had a large amount of terminating stock.

Q.—And the position of matters was that shareholders at a certain time would be able to become creditors of the company in respect of that stock? A.—I don't exactly understand.

Q.—Could they by deciding to withdraw? A.—By deciding to withdraw from what, from the Building and Loan?

Q.—Yes? A.—Those who held terminating shares?

Q.—Yes? A.—Well, the terminating shares were supposed to mature.

Q.—And when they matured, what would happen? A.—Then the individuals who paid in 50 dollars would have a permanent share value of $100.

Q.—Or could withdraw their money, could they not? A.—Perhaps that was a condition.

Q.—Oh, but, Mr. Crawford, you were President of the Provincial Building and Loan and I think you would remember that, would you not? A.—Well, a great many things have come through my mind the last six years.

Q.—Nothing much more important than the Provincial Building and Loan? A.—Perhaps, when it was

52nd day, July 10, 1906.

Central Life Ins. Co.
(Thos. Crawford, Ex'd.)

there it was important, but it ceased to be important.

Q.—Then do you say you have forgotten? A.—I say my memory now is not sufficient in connection with these particular points to answer positively.

Q.—You cannot say now whether the shareholders in that company who had terminating shares, when their shares matured were or were not entitled to withdraw their money? A.—My recollection is that they were entitled to withdraw it.

Q.—That is they could cease to be shareholders and become creditors of the company. Unless paid they would become creditors and from the time they elected until paid they would be creditors, would they not? A.—Oh, perhaps so in that sense.

Q.—That is to say the situation with the Provincial Building and Loan at that time was that the shareholders money was not fast to the company but could be taken from the company to a great extent? A.—Perhaps that is a sound argument on the line of Dr. Hunter's views, that it does not give permanency to it.

Q.—That would be the view, and the Provincial Building and Loan at the time these terminating shares became due was transferred, was it not, amalgamated, sold out? A.—Oh, they were not due from many of them.

Q.—But they were commencing to mature? A.—Well, I suppose they were nearer than when they were issued.

Q.—And so near that some of them were matured? A.—Perhaps so.

Q.—That would be pretty near. Then did you afterwards invest in debentures of the Provincial Building & Loan for this insurance company? A.—Yes, I think we had a $5,000 debenture if my recollection serves me.

Q.—Did you ever have any more? A.—Not that I am aware of.

Q.—Do you think that that was a proper thing for you to approve of after they had been refused by the Ontario Department, you being the President of the Provincial Building and Loan Association? A.—Yes, we had the money to invest and we were getting 5 per cent. and my knowledge of the Provincial Building and Loan was to the effect that the debenture was good.

Q.—You believed the debentures good? A.—Yes.

Q.—I suppose it would be hard to conceive of a President of one company putting the funds of another company under circumstances where he would admit that he believed it was bad but they often become bad, do they not? A.—Well, that is something I would not like to say or give my consent to.

Q.—Is not that a dangerous thing for a person occupying a position of President of two companies, to be using the funds of one by way of purchasing debentures of the other and especially under the circumtances of this case, where the Department had refused to take that debenture as security for a deposit? A.—Well, it was a matter of arrangement largely with the managers of both the insurance and the Building and Loan.

Q.—Then do you say it was not something that was arranged by you? A.—No, it was not arranged by me at all but at the same time my recollection of it is that I did not raise any objection to it.

Q.—That is putting it pretty mild? A.—Well, it is.

Q.—Didn't you suggest it in the first place? A.—No, I wouldn't say I did.

Q.—Who was Manager of the Provincial Building and Loan at that time? A.—Mr. Davies.

Q.—Did you not suggest to Mr. Davies that probably he could sell a debenture to the insurance company? A.—I have no recollection.

Q.—Were the proceeds of that debenture that was sold used for any particular purpose in the Provincial Building & Loan Association that you remember? A.—No, it would go into the general fund and be loaned out.

Q.—Do you know whether any particular loan was made of it? A.—No.

Q.—Any particular transaction entered into with respect to it? A.—No.

Q.—It was not money that was needed for some particular purpose that you knew of? A.—No, we were selling debentures then and the receipts from the sale of these debentures went into our general fund and was loaned out as applications came in.

Q.—There was no transaction between the Provincial Building & Loan and yourself? A.—No, none whatever.

Q.—No borrowing by you from the Provincial Building? A.—No.

Q.—Then do you remember any discussion about that with Mr. Spence, about taking that debenture? A.—No.

52nd day, July 10, 1906.

Central Life Ins. Co.
(Thos. Crawford, Ex'd.)

Q.—Was that approved by the Board? A.—Well, I could not positively say whether the matter was discussed by the Board or not, whether there is a record of it on the minutes.

Q.—Dr. Groves, during his address to the assembled shareholders, and to those represented by proxy, I suppose as well, on January 26th, 1904, spoke in this way: "Allow me to mention another department which, I believe, is of much interest to shareholders and policyholder and will undoubtedly have an important bearing on the earnings of the company and the nature of its securities in the future. I refer to our Investment Department, which, in my opinion, and I think in the opinion of all the directors, is a most important branch of our business. A life insurance company should be built upon such solid and secure basis that it will endure forever and those entrusted with its affairs ought to act simply in the capacity of trustees whose duty it is to see that all investments are made with absolute security, and such has been the object kept in view by your directors. No loan or investment is ever made with out the unanimous approval of the members of the Board. Since our inception it has been a great pleasure to me to note that if the least objection is taken to any investment by any member of the Board it is at once thrown out. I know that the aim of the directors is to look for security above all other conditions, and rate of interest, though important, is second to safety." I suppose you agree with all that? A.—Quite.

Q.—So that the 5 per cent. as compared with 4½ is not the great element in looking at a security? A.—Well, half per cent. is looked upon sometimes.

Q.—But not if the security is not secured? A.—Oh, no.

Q.—That seems to be Dr. Groves' idea. Is that statement correct that every security came before every member of the Board to be ratified, because I can find no trace in the minutes, from one end to the other, of any ratification of these transactions? A.—Well, from memory I could not positively say.

Q.—Mr. Spence says that there is no record that he knows of. Then who determined to purchase that debenture of the Provincial Building and Loan Association? Did you do it or Mr. Spence, or did you jointly agree to do it? A.—Well, perhaps we jointly and perhaps the whole Board did, for aught I know.

Q.—Can you do any more than perhaps about it? A.—I cannot from memory. The only thing I have to say in this connection is that in matters of this kind that we had anything to do with, I always took the members of the Board into my confidence and they always knew what was going on.

Q.—You do not remember any special discussion about it, though? A.—No.

Q.—You do not remember how it was brought about or carried through? A.—No.

Q.—Did the Provincial Building and Loan Association have any other transactions with the Central Life? A.—Not that I am aware of.

Q.—Of any kind? A.—Not that I am aware of.

Q.—By way of accommodation or otherwise? A.—Not that I am aware of.

Q.—Did any of the directors of the Central Life have any transactions with the company? A.—Not that I am aware of.

Q.—Any borrowing of money? A.—Not that I am aware of.

Q.—None of them? A.—No.

Q.—Did you? A.—Not that I am aware of.

Q.—Did you ever borrow $4,000 from the Central Life? A.—I rather think I did, yes.

Q.—Did you give any security? A.—I don't think so.

Q.—How did that transaction come to be made? A.—I think Mr. Spence mentioned to me some money and that if I would pay them 5 per cent.—no, it just comes to my mind now, I cannot say just exactly how it came about, but it was for how long, Mr. Spence? A.—A month, two months.

MR. SPENCE: Six or seven months.

Q.—Mr. Spence points out that in the Bills Receivable Book on the 12th May, 1902, there is a demand note from Thomas Crawford, Toronto, for $4,000 and that it is marked on the outside column "Paid December 12th, 1902." And then in the Cash Book May 12th, 1902, there is the entry, "Sundries, Loan $4,000." Then on December 12th, there is an entry in the Cash Book "Sundries, Loan, $4,000." That would be where you paid it back? A.—Yes.

52nd day, July 10, 1906.

Central Life Ins. Co.
(Thos. Crawford, Ex'd.)

Q.—That is the receipt of the money? That then was a loan on a promissory note of yours from May until December, the note being a demand note without any security? A.—Where is the interest?

Q.—The interest is over here. What did you agree to pay, do you remember? A.—Well, from memory, I could not say, but whatever I agreed to pay I paid it.

Q.—You don't remember what you did pay? A.—No.

Q.—Do you know that it was about 4 per cent.? A.—Well, perhaps it was.

Q.—Was that a fair rate to be paying on a personal loan without security? A.—Well, it was more than they were getting in the bank.

Q.—Do you regard the President as being entitled to use the money so long as he pays more than bank interest? A.—No, I may say that I at the time—

Q.—The next item is the interest, $100. What rate does that work out to, Mr. Spence?

MR. SPENCE: I might just explain that to you if you will allow me. Mr. Crawford got the loan of $4,000. I don't think there was much said about the interest. When he paid it back he asked me what the interest would be and I think I said, would $100 be satisfactory, and he said, yes, so that was the way it was arranged. I think it was me that suggested it.

Q.—But he approved it? (Mr. Spence continues to answer.) A.—Yes.

Q.—And just paid a lump sum of $100? A.—I think that was the way it was done.

Q.—Would that be over 4 per cent.? A.—No, six months would be 4.

Q.—And he had it for seven months? A.—Yes.

JUDGE MACTAVISH: He is wrong about the interest. $100 would be the interest for six months at 5 per cent. A.—It is 5 per cent. for six months.

MR. TILLEY: Now, Mr. Crawford, how do you explain that transaction with the company's funds? You had it for seven months? (Mr. Crawford answers.) A.—No, I don't think so. I spoke to Mr. Spence at the time. It is coming to my recollection now. When I got this loan Mr. Spence spoke to me. He said, this is the busy season of the year in your business. I said, yes. He said, you can use some money. I said, Yes, I can, my accounts are overdrawn in the bank in connection with my own business. He said, Supposing you give us 5 per cent. for $4,000. I said I could use it and it would not cost me even then as much as it did in the bank. That is how the loan came about and I paid at the rate of 5 per cent., and I paid it at the six months other than perhaps a week or two as the case may be in the matter of handing in the cheque. So that so far as the transaction itself, I had quite forgotten it, but the company was perfectly well secured and they made by the transaction. I didn't make anything by it.

Q.—You made something by it; you got accommodation to the extent of $4,000? A.—No, I had all the accommodation I wanted.

Q.—Then do you justify it? A.—Well, I justify it in this way, that I made money for the Central Life. That is how I justify it.

Q.—Do you say that was a proper transaction as between you and the company of which you were President? A.—It might not be in ordinary circumstances, but under the conditions, as I understood them and as I know them, it was money made by the Central Canada.

Q.—Under what conditions? A.—On the conditions that I paid more interest for the money and that it was perfectly secure.

Q.—Secured by your own name? A.—Secured by my own name.

Q.—By your note? A.—Yes.

Q.—Then do you say that it is proper for the President of a company whenever the company has money in the bank earning 3 and he can use it in his own business, to take it so long as he gives the company a little more than the bank interest? A.—I say emphatically no.

Q.—Is there any justification for that transaction of yours if there is not for the general proposition I have stated? A.—No, the only thing is this, that perhaps as we get older we get more experience and while I could get along just as well without the money, the position was that we had the money in the bank and it was only earning 3 per cent., and Mr. Spence was anxious that it should earn more and he knew I could use it without injury to myself and a benefit to the company, and he suggested it.

Q.—It was not at your request? A.—No.

Q.—It was entirely a matter promoted by Mr. Spence? A.—Yes.